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The Fourth National Security Summit: Transportation Finance: Tough Choices Down the Road



Mineta
Transportation
Institute

Created by
Congress in 1991



MINETA TRANSPORTATION INSTITUTE

The Norman Y. Mineta International Institute for Surface Transportation Policy Studies (MTI) was established by Congress as part of the Intermodal Surface Transportation Efficiency Act of 1991. Reauthorized in 1998, MTI was selected by the U.S. Department of Transportation through a competitive process in 2002 as a national “Center of Excellence.” The Institute is funded by Congress through the United States Department of Transportation’s Research and Innovative Technology Administration, the California Legislature through the Department of Transportation (Caltrans), and by private grants and donations.

The Institute receives oversight from an internationally respected Board of Trustees whose members represent all major surface transportation modes. MTI’s focus on policy and management resulted from a Board assessment of the industry’s unmet needs and led directly to the choice of the San José State University College of Business as the Institute’s home. The Board provides policy direction, assists with needs assessment, and connects the Institute and its programs with the international transportation community.

MTI’s transportation policy work is centered on three primary responsibilities:

Research

MTI works to provide policy-oriented research for all levels of government and the private sector to foster the development of optimum surface transportation systems. Research areas include: transportation security; planning and policy development; interrelationships among transportation, land use, and the environment; transportation finance; and collaborative labor-management relations. Certified Research Associates conduct the research. Certification requires an advanced degree, generally a Ph.D., a record of academic publications, and professional references. Research projects culminate in a peer-reviewed publication, available both in hardcopy and on *TransWeb*, the MTI website (<http://transweb.sjsu.edu>).

Education

The educational goal of the Institute is to provide graduate-level education to students seeking a career in the development and operation of surface transportation programs. MTI, through San José State University, offers an AACSB-accredited Master of Science in Transportation Management and a graduate Certificate in Transportation Management that serve to prepare the nation’s transportation managers for the 21st century. The master’s degree is the highest conferred by the California State University system. With the active assistance of the California Department of Transportation, MTI delivers its classes over a state-of-the-art videoconference network throughout the state of California and via webcasting beyond, allowing working transportation professionals to pursue an advanced degree regardless of their location. To meet the needs of employers seeking a diverse workforce, MTI’s education program promotes enrollment to under-represented groups.

Information and Technology Transfer

MTI promotes the availability of completed research to professional organizations and journals and works to integrate the research findings into the graduate education program. In addition to publishing the studies, the Institute also sponsors symposia to disseminate research results to transportation professionals and encourages Research Associates to present their findings at conferences. *The World in Motion*, MTI’s quarterly newsletter, covers innovation in the Institute’s research and education programs. MTI’s extensive collection of transportation-related publications is integrated into San José State University’s world-class Martin Luther King, Jr. Library.

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MTI REPORT S-07-01

**The Fourth National Security Summit:
Transportation Finance: Tough Choices Down the Road**

October 12, 2006

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- Asha Weinstein Agrawal, MTI Research Associate, Assistant Professor, Urban and Regional Planning, San José State University
- Rod Diridon, Executive Director of the Mineta Transportation Institute
- Mort Downey, President of PB Consult and Member of Mineta Transportation Institute Board of Trustees
- Nuria Fernandez, Commissioner of Aviation for Chicago and Member of Mineta Transportation Institute Board of Trustees
- Arthur Guzzetti, Head of Policy Research at the APTA
- Doreen Jacopani, U.S. Department of Transportation representative to the Metropolitan Transportation Commission
- Will Kempton, Director of Caltrans
- Secretary Norman Y. Mineta, Hill & Knowlton Vice Chairman
- David L. Turney, Chairman/President/CEO of DRI and Mineta Transportation Institute (MTI) Board of Trustees Chair
- Bill Millar, President, American Public Transportation Association (APTA)

The event was sponsored by San Jose State University (SJSU Mineta Transportation Institute and the California Business Roundtable.

MTI also thanks several other people for their dedication in producing this event and publishing the document: Communications Director Leslee Hamilton; ITT Director Jim Swofford; Special Projects Director Donna Maurillo; Transcriber Meg Dastrup; Editor Frances Cherman; Technical Assistant Sahil Rahimi; and Webmaster Israr Qumer.

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FOREWARD

Transportation is facing a major finance crisis. With the end of SAFTEA-LU in sight and the federal and state gas taxes becoming more and more marginalized through inflation, transportation and public transit must look for new sources of funding.

For transportation and transit agencies and institutes across the United States to continue to function and provide service to an ever-expanding ridership base we must find innovative, feasible and long-term finance solutions.

The symposium: “*Transportation Finance: Tough Choices Down the Road*” was held to address this growing concern, to offer possible solutions, and to serve as a call to action.

Numerous leaders in transportation, researchers and innovators were invited to participate in the open forum, and to share their research and experience regarding finance, taxes, and public opinion.

Participants in various discussions included, in alphabetical order:

- Asha Weinstein Agrawal, MTI Research Associate, Assistant Professor, Urban and Regional Planning, San José State University
- Rod Diridon, Executive Director of the Mineta Transportation Institute
- Mort Downey, President of PB Consult and Member of Mineta Transportation Institute Board of Trustees
- Nuria Fernandez, Commissioner of Aviation for Chicago and Member of Mineta Transportation Institute Board of Trustees
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- David L. Turney, Chairman/President/CEO of DRI and Mineta Transportation Institute (MTI) Board of Trustees Chair

Rod Diridon

Executive Director

Mineta Transportation Institute

EXECUTIVE SUMMARY

The Norman Y. Mineta International Institute for Surface Transportation Policy Studies (IISTPS) has been fortunate to receive funding, through the Federal Research and Special Programs Administration (RSPA) and the California Department of Transportation (Caltrans), to conduct policy-related activities in the areas of research, education, and information-sharing to benefit the United States surface transportation industry.

This document, *Transportation Finance: Tough Choices Down the Road* is the transcript of a symposium held on October 12, 2006. The symposium was sponsored by the Mineta Transportation Institute and co-sponsored by the California Business Roundtable. For this symposium, numerous policy makers, transit executives, and transportation policy experts and researchers were invited to participate in an open forum.

Topics of discussion included: SAFTEA-LU, the marginalization of the gas tax, the receptiveness of the public to new taxes and the likelihood of private-public partnerships. With sources of funds dwindling, either through inflation, or through a lack of public financing, public transportation, aviation, and transit-related infrastructure need to find stable, reliable funds for maintenance and expansion. Some possible solutions involve the implementation of new taxes, an end to taxation of bonds, and possible engagement in partnerships with private companies interested in investing, leasing or operating public roads, airports or other transportation systems.

The agenda included the following highlights:

- David Turney introduced the panel and the topic of discussion.
- Mort Downey defined the challenges facing the transportation industry, and opened the door to possible solutions.
- Asha Weinstein reported the findings of her study on the receptiveness of Californians to a variety of financing techniques.
- Nuria Fernandez discussed how private/public partnerships have affected Chicago airports, and what direction transportation should take to secure financing.
- Will Kempton spoke about the future of transportation finance policy in California.
- Dave Turney explored the idea of private investment in public transportation infrastructure.
- Arthur Guzzeti explained the importance of establishing an effective public relations program to demonstrate the value of public transportation when seeking public financing.
- Secretary Norm Mineta discussed techniques for reducing the cost and increasing the effectiveness of transportation, as well as ways to gather support for transportation finance.
- During two question-and-answer sessions, the panelists and speakers addressed questions from the audience.

MINETA TRANSPORTATION INSTITUTE
TRANSPORTATION FINANCE:
Tough Choices Down the Road

OCTOBER 12, 2006

DAVID TURNEY:

Co-sponsoring today's event is the California Business Roundtable, which is a non-profit, non-partisan organization composed of Chief Executive Officers of leading California businesses. President William Hauck is unable to join us today, but he sends his best wishes for a productive and spirited discussion. Before we begin let's introduce Mort Downey.

Prior to assuming the Presidency of PB Consult, Mort Downey III, was the Secretary of the U.S. Department of Transportation from 1993 to 2001. As a U.S. Department of Transportation Chief Operating Officer, Mr. Downey had program responsibility for operations, regulation and investment in land, sea, air, and space transportation. He also served on the President's Council as Chairman of the National Science and Technologies Committee on Technology and a member of the Board of Directors of Amtrak.

Previously Mr. Downey was Executive Director and Chief Financial Officer of the New York Metropolitan Transportation Authority, the nation's largest independent public authority. Over a 12-year tenure he directed the Metropolitan Transit Authority's capital programs, totaling over \$20 billion, and developed new public and private financing techniques. He also worked on the U.S. House of Representatives Committee and at the port authorities of New York and New Jersey. Mr. Downey has received numerous professional awards including election to the National Academy of Public

Administration, where he has served as Chairman of the Board of Directors. In addition, he was a 1999 recipient of the American Society of Public Administration award for transportation management, and he received the Frank Turner Lifetime Achievement Award from the Transportation Research Board and a lifetime achievement award from the American Public Transportation Association. He is a member of the Board of Directors of the Transportation Foundation and a member of the board of trustees of the

Mineta Transportation Institute. Mr. Downey is a graduate of Yale University with a BA in Political Science, and an MA in Public Administration from New York University. He completed the Advanced Management Program at Harvard Business School and has served as an officer in the United States Coast Guard.

MORT DOWNEY:

Thank you very much, Dave. I do have to correct one point in the introduction: I think Dave said I was secretary for eight years, when in fact I was mostly a deputy secretary. I was secretary for two days, and I did nothing except swear in Norm Mineta as secretary. I want to thank the Institute for organizing this event, and thank our fellow participants for being part of it. I'd like to give my congratulations for the reselection of the Institute; we need their constant flow of good research studies and tomorrow's transportation executives. Finally, I want to thank all of you who are here today. I had the sense some of you may feel you're "conferenced out." Howard, you worked them a little too hard this week, but you're not going to get a chance to rest. I have been around the transportation world a long time, as Dave's introduction suggested, and the issue of finance has always been there. It's a topic that's both timeless and timely. We all spend our days passing the hat to try to collect money for what we need to do. I think we're actually at a point now where our means and our methods of transportation financing are changing. It isn't just conversation; we're beginning to see actions. I think that it's important that the National Commission is dealing with these issues and encouraging this conversation about how we finance our system. I testified before them at their first hearing in Dallas, and the question that kept coming to me was, "What is the vision of transportation? We'll figure out a way to pay for it, but we really need to know, what is it we are paying for; what does it do for us?" They may not find the silver bullet, but we've got to come up with ways to make the system work. We need to get beyond how to just pay for the next project. We need to figure out how to allocate the responsibilities for transportation investment and assure that they are done well.

It's been hard in the last few years. We all suffered through the reauthorization of SAFTEA-LU. I suspect the same tough process awaits for an aviation bill that really needs to pass in the next year. It's going to be hard to debate how we pay for that. Lined

up behind those two, both Amtrak and our maritime transportation need attention. However, we can't get to them until we get past the issue of financing.

There are signs of significant change; we've seen the tollway deals, and Nuria Fernandez is having a garage sale on Midway airport. Turning that airport over to the private sector provides evidence that the private sector sees value in infrastructure investment. I heard that there is a \$38 billion war chest of companies who are looking to invest in infrastructure. I saw a presentation yesterday that said it may be closer to \$50 billion. The money is out there. New expertise is coming into our field, and we may be seeing a paradigm shift. Our means of financing transportation needs are way out of sync with how our systems are operating. This is not a problem just on the funding level—that's only a symptom; our basic forms of investments are stuck in the past. We have a Model-T financing system in an era when the Dreamliner is the vehicle that we all should be thinking about. We're still using the ways of financing that were created early in mid twentieth century as we're moving into the twenty-first.

Let me touch on a couple of our current systems. Our system of gas tax-funded trust funds for highways has served us well. It was really good at meeting the needs of the twentieth century. When highway programs started, that small federal contribution was really aimed at the farm-to-market roads. Well, we certainly saw the lesson a few weeks ago, those farm-to-market roads are 3,000 miles long, and we now have a different system. This system was the vehicle that got our national interstate system completed. But it now needs to be rebuilt, and we need to find a way to do that. The emerging needs tend to put themselves forth as specific projects. However, when we begin to deal with a specific project, we begin to lose sight of the system as a whole. Our means of transit financing serve the industry well as we moved it from private sector to public responsibility and as we stabilized our existing systems; but as we begin to build new ones we really need to step back and say, "How do we make it work as a whole, how do we make it work with other modes?"

Railroads are an important part of financing system for our transportation assets. If you go back far enough they were funded by government land grants and watered stock. I don't think the latter would work in the days of Sarbanes-Oxley. Certainly we don't have

any more government land to provide to these railroads, but they still have needs. They have actually contracted themselves for years, and are now at a point where they need to expand. The government managed to stabilize those railroads in the sixties and seventies. When they went through bankruptcies, we got them on their feet, and now they are doing well. The railroads are healthy but not generating enough revenue.

And we have Amtrak, our national passenger railroad, a financial model clearly out of sync with what we expect from it. It was put into business in the 1970s as something that could take a small amount of federal money, get restructured, and make money after that and sustain itself. That hasn't worked. We really have to ask ourselves, "What is it we expect from Amtrak?" Then we need to recognize that we're going to have to pay for it or find other models to assure that we have a strong passenger rail system.

Aviation has gone through the same set of issues. Secretary Mineta chaired a commission for us on national civil aviation and set forth a blueprint; but we need to think about what we need for the future, how we both operate and invest our system of financing. It has grown, and will reach a billion passengers a year within the next few years. We have to figure out how to deal with that.

For our maritime needs, which have always been a bit of a stepchild, our government policies are from an era when all you had to do was a little dredging to maintain the national channels, a few buoys for safety, a decent system of charts, and everything would take care of itself. Well, that industry has totally changed. We live in a world economy, and we need to be able to support a more efficient maritime transportation system if we're going to thrive. I've been working for the last five years on expanding the Panama Canal and how we can rebuild the locks. I was a little disappointed, when I had dinner with an official in shipping, and he said "By the way, we've already ordered the container ship, and it's bigger than the locks that you're intending to put in."

I think it's clear we are headed towards more of a mixed environment. Government will still have important responsibilities, especially in maintaining the system that's in place, assuring safety, assuring operations. This is no small task; it will need more resources than we have now. But building new systems, building new facilities to support our growing and changing economy, may well involve a different mix. It may require public-

private partnerships. I think public-private is an overused phrase and it means a lot of different things to a lot of different people. We need to define it as a way in which we can make investments for development. The fact that there are those billions out there looking for a home suggests that investors who have real money see an opportunity to invest in American infrastructure. What we need is a governmental set of policies that effectively harnesses these forces in a way that meets the public interest while still satisfying the needs of the private investor. Underlying this thinking is the central concept that we need to look at our transportation system as an investment that ought to be a central core of the vision that we put forth.

For too long, we've characterized our expenditures for transportation as a cost and not an investment. Investments bring you return; costs merely keep you in place. This is an artifact of the federal budget. Decades of complaining about the lack of a capital budget at the federal level have not caused our colleagues with money to change their minds.

I was in New York during the years of fiscal crisis. I remember when they were putting the chalk for the blackboards on the capital budget. We don't want to do that, but there is a fundamental difference between building a facility that's going to last 50 years, and just paying the day-to-day expenses of the government. The instrument of the public/private partnership may be able to change that. We're taking the view that investing in our transportation system is part of our effort to assure our national well-being.

If you go back and look at our history, back to some of our founding fathers, you can see how they thought about transportation long before any of us were involved. Let me just read a short quote from Secretary of Treasury Alexander Hamilton. He wrote a report called "The Report on Manufactures" [sic] for President Washington in 1791 that laid the blueprint for a modern industrial economy. What he said was, "The symptoms of attention to the improvement in inland navigation which have lately appeared in some quarters must fill with pleasure every breast warmed with the true zeal for the prosperity of the country." These examples, it is to be hoped will stimulate the exertion of government and citizens of every state. There certainly can be no object more worthy of the cares of the local administrations; and it were to be wished that there was no doubt of the power of the national government to lend its direct aid on a comprehensive plan. This

is one of those improvements which could be prosecuted with more efficacies by the whole than by any part or parts of the union. There are cases in which the general interest will be endangered to be sacrificed to the collision of some supposed local interests. Jealousies in matters of this kind are apt to exist, as they are apt to be erroneous.”

That was Hamilton’s vision: transportation supporting a growing economy. Let me amplify it with some thoughts from Albert Gallatin. Albert Gallatin was our longest serving secretary of the treasury. He was in office for 14 years, from 1800 to 1813, serving President Jefferson, and he was from a very different economic school of thinking than Hamilton. He’s much more one of the agrarian Jeffersonians, but he produced a report on internal investment that contained the exact same sentiment.

A recent book by Peter Bernstein about the development of the Erie Canal talks about Gallatin’s view that improved transportation is an indispensable condition for increasing national and common wealth: “Good roads and canals do more than just reduce the expenses of moving cargo and people. An improved transportation system makes it possible for the first time to move goods that have been excluded from trade and commerce due to their excessive weight or the distance of their origin from potential markets. By increasing the volume of goods entering trade and commerce, a transportation system would instantaneously increase national wealth.” Despite that, the federal government never did invest in the Erie Canal. There were people who were worried about national roles and local roles, and some disagreed with the premise that opening up our gateways to the west would really improve the nation. Many were worried about economic conditions because in those 12 years or so, there were some downturns. Some were worried about our military capability as we moved toward the War of 1812. However, my fellow New Yorkers, ever mindful of economic opportunities, moved ahead. They developed the financing mechanism. They got the work done and got the project paid for in relatively short order. And they reaped the benefits for many decades.

We need to learn from the pattern that California has followed. If the needs aren’t being met by the government, then figure out how to meet them. These are the kinds of investment opportunities we can’t pass by, and I hope our discussions today will focus on

how government: federal, state and local, in conjunction with the private sector can turn our twenty-first-century transportation needs into the investment opportunities that will support our nation's growth and development.

We're going to have a panel discussion this morning, and we're going to be hearing from people who have been directly involved in transportation financing. I'm going to introduce each of them one at a time; they'll come up and do their presentation and then we'll have the opportunity for you to participate.

Thank you all for being here, it's an important topic, and I hope it will bring some progress. Let me call first Asha Weinstein, who is an assistant professor here at the university and a major participant at the Mineta Transportation Institute. She's been involved in transportation financing research for decades, and is the co-author of two major studies on the subject; one is an investigation on transportation finance opportunities for the state of California. She's also looked at the equity issues involved in high-occupancy toll lanes and she's recently published a report on land use and an article on historic public perceptions of traffic congestion. She received her doctorate from UC Berkeley, her master's in urban planning from the London School and a BA from Harvard, and we're very anxious to hear what she's been studying now.

ASHA WEINSTEIN:

I'd like to thank everybody for being here with us today and to thank the organizers of today's conference for giving me the opportunity to speak with you. What I would like to do is to share some results of some public opinion polling that I've worked on over the last year. These polls look at what the public might be willing to accept in terms of new transportation financing options. What I'd like to do today is talk about the results from just a part of our survey. We learned about three new or innovative ways to finance transportation, which include tolled roads, using public/private partnerships to build and operate those tolled roads, and the enforcement of something I'm calling an "environmental vehicle registration fee." The questions I'd like to set up and try to answer for you all today are, first, "Would these be politically feasible?" Second, "Are there subgroups within the population that may be particularly supportive of these options?"

The reason I think it's important for us to think about public opinion in terms of transportation finance is that shifts in transportation policy come about due to two sets of circumstances. The first is when decision makers decide that they are good policies, and that they are something that will benefit the city, state, country, and nation. Second, they must be policies that politicians believe the public will support; because if we're going to change our transportation finance system, we need political champions. We're not going to find those political champions unless we can assure them that these are new ideas that will at least be acceptable to the public, if not popular.

Now I'm going to tell you just a little bit of background on the study I was working on. First, I'll discuss how we conducted the survey. Second, I'll reveal to you some of the results we found about tolling, using public-private partnerships to fund those toll roads, and the environmental vehicle registration fee. This research was done as part of a larger study funded by the Mineta Transportation Institute, which was called "Transportation Financing Opportunities for the State of California." We were trying to look 20 to 30 years into the future, at a wide range of different finance opportunities, from public-private partnerships, to tolling, to more traditional and even some non-traditional taxes and fees.

We evaluated these according to five different criteria.

- Would they raise sufficient amounts of revenue and do so in a predictable long-term way?
- How would the implementation of these sources play out? Was it going to be easy? Would there be high costs or a whole new government bureaucracy? And would there be any implementation disadvantages?
- Would these new financing opportunities and options be fair to different subgroups within the population; would there be equity?
- Would there be an effect on transportation system performance? Whether we like it or not, any time we charge fees to use something like a road, or increase taxes, we influence people's behavior. Thus it's possible that in some cases we might

- The last criterion we looked at was the issue of political feasibility. Even if it's good policy along those other four criteria, it's not going to happen unless the public accepts it and we can convince politicians to be leaders on these issues.

As part of our feasibility analysis we did two public opinion surveys. We did telephone surveys of random samples of Californians. The first of these was a large survey of over 2700 people. We asked them about a wide range of different tolling options and different tax and fee options. We followed that up with a second study where we delved into the specifics on tolling and the concept of using a public-private partnership in order to pay for and operate toll roads.

Let me start with tolling. We asked people about their support for a range of different types of tolled roads. Interestingly, we found that in two cases, there was majority support. The one that was the big winner was truck-only toll lanes. We told our survey respondents that these would be tolled roads parallel to freeways that trucks would be required to use, and 64 percent of people said they supported this concept of truck-only toll lanes. The second big winner was HOT lanes (High-Occupancy Toll lanes) and 55 percent of people said that they were in favor or would support the creation of HOT lanes. We also asked about fully tolled roads, and tolled roads in parallel to highways. For fully tolled roads there was definitely less support—in the 40 percent range—so while of course it wasn't something that you could say there was an overwhelming groundswell of support for, you could say that there wasn't strong opposition. Certain toll roads don't usually go before a referendum on the ballot; this might well be a support level that politicians would be comfortable with in trying to champion some new tolling projects.

In addition to learning the overall support levels, we investigated particular groups within the population that are likely to be especially supportive. We found three subgroups that I'd like to mention. Women were more supportive of toll roads; in fact, out of all the different tolling options we polled them about, there was an increment of support, ranging from about 5 to 9 percent, who were more likely to support their creation than

men. The second population group that strongly supported tolling was young people. We divided our survey sample into different age groups and the young group, which was 18- to 34-year-olds, had majority support for the different tolling options we asked about. The age group least supportive of toll roads was the 55 and over group.

Another interesting thing we found was that with toll lanes, prior experience matters. We found that people in Southern California and the Los Angeles area were more supportive of tolled options with the exception of truck-only toll lanes. For those of you who aren't familiar with California, we have tolled lanes that have been built in the Southern California area in the last 15 years or so, and these are not present in the rest of the state. There also aren't truck-only toll lanes almost anywhere else in the state. We think this is pretty convincing evidence that once you build toll roads, people start to accept them more readily. Now before I wrap up on toll lanes, I'd like to mention one demographic variable that we thought might have an effect, but in the end didn't matter. We had hypothesized that perhaps lower-income respondents would be less likely to support toll roads since it's a greater burden for them to pay tolls. But we did not find that to be true. Low-income groups actually had a higher rate of support for some of the tolling options than did people in higher income brackets.

So, in conclusion, we found stronger support from women, from younger people, and from people who lived in the region that had a toll road that had already been built. We also found that there was very little difference in support by income group.

Now let's discuss some of the new transportation options I wanted to talk about. There is the idea of using a public/private partnership as a way to build and operate a toll road. We explained to the people in our surveys that there are two ways to build toll roads. One is to have the state borrow the money to build the road and then use the tolls to pay back the debt. Another way is to let a private company build and maintain the road, and use the tolls to pay off its investment and earn a profit. We asked them what they preferred. Would you prefer that the state build the road and operate it or that the private company build the road and operate it? And when we put the question to the people this way, we found that 48 percent of them preferred the state option, and 37 percent of them preferred the public-private partnership option.

In addition, we tried to determine how many people were directly opposed to a privately owned road. So we asked some follow-up questions and we fiddled around with our data. We found that only 11 percent of people said that they oppose a public/private partnership and another 72 percent said they either actively favored a public-private partnership or at least were willing to accept one. The remaining people said in no way would they ever possibly accept a toll road. We also tried to look at the demographic breakdown of those who was more supportive and those who were opposed to the public/private partnerships. Only one group stood out, 18- to 34-year-olds were the least likely to say that they actively opposed having a public/private partnership building and operating a toll road.

The third and final of these new financing options I wanted to talk about I've been calling an "environmental vehicle registration fee." We defined this term or this concept for our survey respondents as a vehicle registration fee that varies according to vehicle. Vehicles that pollute more and use more fuel would pay a higher fee, whereas vehicles that were cleaner and more fuel-efficient would pay a slightly lower fee. When we asked people whether they support this concept, about 44 percent said they would support this. That is not the majority, so you can't say there's a groundswell of support. However, I want to explain to you two other questions we asked that I think show that this environmental fee concept can be very appealing to the public.

Early in our survey we asked people about whether they supported a vehicle environmental registration fee, but we just asked them about the principle. We said, "As a general principle, should the fees that people pay to register their vehicles take into account the amount of pollution those vehicles emit?" This question elicited what was probably the survey's most interesting result. 63 percent of people said, "Yes, I support that principle." I had not expected such a result and I think it really adds something new to the whole transportation finance debate. The other thing we did later on was we asked people whether they supported a plain old increase in the vehicle registration fee, and only 32 percent supported an increase in the vehicle registration fee. So we had a significant increase in support by adding in that environmental concept.

Particular subgroups within the population had different reactions to vehicle registration fees. We found that the groups that responded most positively, when we switched from the flat vehicle registration fee to the environmental one were women, younger people, and those in the lower income brackets. Those who had the smallest change in opinion were people who are not white or who are college graduates. We also asked some people some questions about their general opinions of government and taxes. Among people that said that they thought taxes are too high in California, even this group had greater support for the idea of a vehicle registration fee once it was touted as an environmental vehicle registration fee.

Lets go back to the two questions I raised at the beginning. First: is the public going to accept any of these new options? I think the answer, at least based on our polling results here, is yes. Tolls in the form of truck-only toll roads and the HOT lanes had support levels over 50 percent. The other tolled options had support in the 40 percent range, which isn't too bad. Only 11 percent of people actively said that they oppose having private firms building and operating toll roads. Forty-four percent of people said that they would support an environmental registration fee, but we see that this concept of having an environmental fee resonated with a great number of people. In addition, there was no clear pattern based on income that could predict whether an individual would support toll roads, fees to use the road, or increased taxes, even though it would be more unfair to low-income people. Younger people seem to be our champions across the board, as they were the most likely to support tolling, private/public partnerships and an environmental vehicle registration fee.

Here, there's an interesting question, and I don't claim to know the answer, but we need to ask ourselves if this is a cohort effect. Are people who support these fees right now going to support them less as they age, or are they going to continue to support them? Is it just that when you're young maybe you're sort of foolish and you don't mind taxes and tolls and things, and as you get a little older you will change your mind? I'd like to end by saying that I think the third interesting finding with important policy implications for all of us is the point that in regard to support for tolling, prior experience with tolling does boost support. Thank you for your time and attention and I look forward to seeing what the remainder of our panelists will be presenting.

MORT DOWNEY:

Thank you, Asha, that really gives us potential hope that at a time of change, there are people out there who are willing to listen and willing to be educated. Our next speaker is an old friend, Nuria Fernandez, who is in a new job as commissioner of aviation for the city of Chicago, heading up O'Hare and Midway. Those two airports served more than 94 million passengers in 2005. As some of you may know, O'Hare is a place where change is happening, with a major reconstruction. They are essentially jacking up the old airport, trucking it away, and bringing a new airport in, and keeping it working throughout that period. I can't think of anybody better to do that than Nuria. She was the Acting Administrator of the Federal Transportation Administration, and she managed to award more than \$5 billion during her tenure in that two-year period. Prior to that she had been the senior vice president of development and construction at the Chicago Transit Authority where she set in motion that agency's capital improvement program. Commissioner Fernandez is a member of the Women's Transportation Seminar, SMI, the Airports Council International, the AA of Airport Executives, and like many people you've heard from this morning, she is on the board of trustees of the Mineta Transportation Institute. She holds an MBA from Roosevelt University and her BS in Civil Engineering from Bradley in Peoria.

NURIA FERNANDEZ:

Good morning, and thank you very much, Mort. I am very delighted to be here, not only because I am on the board of directors for Mineta Transportation Institute, but because this is an important forum where we're going to be addressing a lot of challenges. What I'm going to attempt to do here today is to add a different perspective. I know most of you who are in the room have been participating in the APTA conference, which is focused on public transportation. But my perspective is one where the reverse thrusters meet the runway, and I am now the sole voice of aviation on the board of directors for the Mineta Transportation Institute.

We in aviation had a very impressive year in 2005. Our industry, which is measured by "revenue passenger miles"—RPMs—grew a whopping 8 percent. And commercial air carrier domestic use rose 6.5 percent which was 4.5 percent over the pre-9/11 levels, and

that's significant. As all of you know, after 9/11, our industry suffered a significant blow. However, even with the higher fuel prices, more people are traveling today than there were back in 2000. While this is great, it creates a lot of challenges as it relates to our infrastructure and puts a lot of pressure on us to expand our capacity. Globally our traffic statistics show that the world's airports served 4.2 billion passengers, and given the fact that most of you arrived here by plane, you understand what I'm talking about. At the large connecting airports, we have more delayed flights; and more and more airlines are double- and triple-booking seats.

So we've got a challenge in the aviation industry itself. The people who use our airports and who are traveling have to arrive there by some mode of transportation, and the goods that are being trafficked on those planes have to be distributed. We need to have a multimodal approach as we continue to explore ways that we can ease the traffic congestion that we're experiencing both on the airspace and on our roadways. According to the FAA's latest forecast, by 2017, the U.S. commercial air carriers are projected to fly 1.6 trillion available seat-miles and transport about a billion passengers. Planes will become fuller, and our load factor is projected to increase every year. Things are going to become very difficult. Recent moves to liberalize air transport, such as what's been proposed by the *EU-US Open Skies Agreement*, is going to boost this traffic even more rapidly than what the FAA has predicted.

So what does this all mean? This means that growth in aviation will continue to put pressure on our existing infrastructure and require increased investment for new infrastructure. I know this all sounds familiar because I preached the same thing when I was in transit. Airlines are going to need to grow their fleets, airports are going to have to expand both air-side and terminal capacity to accept this growth, and the FAA is going to need to modernize its air traffic system. We are working towards a reauthorization of Vision 100. The rise in air traffic affects all aspects of airport service, from the incoming roadways, to parking, to check-in at the ticket counters, to the screening checkpoint through TSA, to baggage and overall crowding. This challenge is being posed to not only airport directors but also to our elected officials and government agencies. We need to find ways to enable our airports to build the capacity quickly and provide the mechanisms

that can help fund any necessary infrastructure improvements. Otherwise we risk the reemergence of what we had labeled the “hassle factor.”

The federal government, by limiting this added capacity through the restrictions of slot controls, provides an artificial way of dealing with the problem. Air travel is going to continue to grow, and we don’t want travelers to bypass our airports. I hope not to embarrass Secretary Mineta, but I have a quote that he expressed some time ago. Every time I asked him about air slots and what it would mean to O’Hare, concerning flight caps restrictions, he said, “In this new environment, airlines will literally bypass cities with restricted aviation policies in favor of more liberal markets. These bypassed cities will see fewer travelers passing through the airports, less cargo being loaded onto planes, and fewer passengers arriving to do business and spend money, and that is very significant.” Not only is the Chicago airport system the busiest airport system in the country, we are number 15 in the world as it relates to cargo, both by value and weight. This is a great benefit, and one that we want to continue to sustain, but one that we desperately need to find the funding necessary to maintain. No one wants to see capacity controls but if we don’t invest in the airport, that’s exactly what we’re going to have.

You may or may not have heard of our O’Hare modernization program, but it has been projected to cost about \$15 billion, the first 6.6 billion is on the way, and it’s going to provide us with that added capacity. But we think by the time that we’ve gotten those runways built, the capacity will be just about right for the moment but not quite ready to accept the 2017 projections that the FAA has doled out. So we’re always going to be in catch-up mode.

On capital expenditures, I’ve just come from the Airports Council International, which was in Reno, a couple of weeks ago. At that conference, my colleagues—the other airport directors and industry leaders—looked at what was going to be required to meet future capacity. By looking at how much we had spent, we found that airport operators collectively spent a record \$36 billion on new capacity in 2005, up 11 percent from prior years. So, with passenger traffic forecasted to double over the next 15 years, there is going to be an exponential uptick of our existing activities.

So what will happen with the O'Hare modernization program? What we're anticipating is that we will be able to decrease delays from 15 minutes down to five; I know some of you have been to O'Hare, and have been delayed for two hours, so where do these 15 minutes come from? This is the number that our air traffic control gives us in terms of how they are staggering the planes. As you all may know, we are in a very congested area; we are the center of not only the country but also the world, as we like to parlay it. With the modernization program, what we're hoping to do is to save the airlines about \$375 million annually in delay costs, create 195,000 new jobs and pump an additional \$18 billion into the regional economy. If we can do that in Chicago, can you imagine what can be done across the country? Airports must not only plan for and add to their existing infrastructure but they need to start looking at what we have today and how we can keep it in a state of good repair. Therein lies the challenge of funding reform.

With the reauthorization of Vision 100, we see tremendous opportunity. We have what we in the airport industry call some "low-hanging fruit." The industry is going to spending a lot of time on our proposal and share with the FAA how we treat airport bonds. Many of us depend on bonds to be able to engage in programs like the O'Hare modernization program. Our programs cost \$6.6 billion, of which the Federal government is only providing us with a third. Currently most airport bonds are not classified as public-purpose and therefore they're not exempt from the alternative minimum tax; but we feel that since airports serve the general public these bonds should be tax-exempt. That's one of the areas that will be made clear in a pending proposal to create a tax-exempt status that would allow the airports to refinance existing debt and increase our borrowing capacity from interest rate savings. Yesterday, Mayor Richard M. Daley introduced the city's annual budget to the city council and the budget for our airport systems alone was \$900 million. Of that \$900 million, \$400 million is earmarked to continue paying debt service for all bonds. We're on our third line. We are looking for ways to reduce the interest, ways to leverage those dollars, and how we can start looking at other ways to introduce better quality into our infrastructure improvement programs.

We are also charging passenger facility charges to raise funds. It's a very successful program for reinvesting in the airport infrastructure. Right now the charge is around \$4.50, which is the same that it was when it was enacted in 2002. But that is so woefully

inadequate that it is being suggested by the airport community that it should be increased to something more in line with inflation. An approximate fee of about \$7.50 will hopefully be added to the index of the PFC so that the inflation rate does not continue to erode our already meager supply from this fee. When we put together budgets based on the dollars that we anticipate through this and other means of funding the airports, both the operating and the capital needs of those dollars will be closer to today's funding needs.

The other area of finance for airports is found in an airport improvement program which is done through the Aviation Trust Fund. This continues to be an excellent source for our funding needs, but we all know that, similar to the transportation trust fund and the highway trust fund, the aviation trust fund also has its challenges. The needs out there are very elastic, but the trust fund is very inelastic, and it's not going as fast as the need to absorb it. So therefore the trust fund, which is built from ticket and aviation field taxes, is now being taxed.

With the importance of aviation to this nation, we must find a reliable funding source, one that can be depended on. It is going to be crucial that the airport community find funding that can be built into a strong and independent source in the future. We need guaranteed sources of funds, similar to what has been done in safety and security funding. Funding options that we are going to be exploring in addition to traditional funds will include an idea that was shared with us by the Transportation Security Administration. They're looking at the potential of issuing what's known as tax credit bonds to help pay for the cost of the inline baggage screening. Our experience at O'Hare was rather interesting. We went through an expansion program where we increased our lobby area so we could introduce these 20-ft. machines for TSA that will process baggage. Then, as it turned out, TSA determined that it would be best if it could be done behind the scenes so that the lobby areas could then be used for better circulation of passengers and better ticket counter areas for the airlines. So now we're in the process of relocating the machines, not the 20-foot-diameter machines but something that's much more stylized and more effective. However, that's a very costly investment, and we hope to use this tax credit bond where we will be allowed to sell bonds to cover the capital cost of this since it's one of those mandates that we have to find the funding for.

User fees are another option. Everyone seems to prefer a user fee to a tax hike. The airlines are supporting a user fee system to fund the air traffic control improvements that are necessary, such as the radars and all of the equipment that guides the plane safely onto the runway and taxi it to the gate. If capacity controls are in the future, then two user fee schemes are on the table for airports. Congestion pricing is something that the Department of Transportation Policy office has been exploring, where those airports with the highest volume will pay the most. A slot auction is also being considered. Some airports, such as the Chicago airport system have exclusive-use gates, and so a lot of the dominant airlines (the largest two airlines use 80 percent of O'Hare) take up a lot of slot capacity there. To try to auction those off would be a very innovative way of making sure that we have new entrants into our airports.

Customer facility charges are something that have been implemented at many airports and that use the customer facility charge to finance the construction of consolidator rent-a-car facilities. This is a more comprehensive way of administering. It frees up a lot of collateral development at our airports and gives the opportunity to engage in joint developments and generate revenues that way.

Now I'm going to talk a little bit about the "P" word—privatization, which is definitely another option. There is a pilot program that the U.S. Department of Transportation made available to us in our reauthorization, and that pilot program would allow five airports to submit an application for privatization. It relaxes some rules to allow privatization, one of them being revenue diversion. In Chicago, we're looking at privatization for Midway airport, not because we need to access dollars for infrastructure improvements, to build new terminals, and to improve the airfield—all of that has been done. We're doing it because there's a tremendous opportunity. We've got these assets and we want to see how much of that asset we can turn into funds that could be used for infrastructure improvements outside of the airport or in addition to the airport. Because the pilot program allows us to explore this, we thought we might take it one step further. As some of you may know, Chicago was the first city in this country that privatized public toll roads. Our Skyway was the first privatized toll road that was owned and operated by a city government, and we were pleasantly surprised when we were able to realize \$1.8

billion from the long-term 99-year lease. So we're hoping that we're also going to be pleasantly surprised with the Midway privatization.

Finally, I just want to say some final words on multi-modalism, because, as I mentioned earlier, we're talking here about surface and I'm introducing the aviation industry. In order for us to really achieve a healthy transportation industry and to be able to maximize financing, we can't just look at that piece of the puzzle. We have to have a sense of what that landscape looks like out of the top of the box. If somebody gives me a piece of the puzzle and said "Here take this, make it work, finance it, fund it, issue the grants, and regulate it," I'll do that, but what does it do? What's the causal effect of just working in this singular fashion, as a silo? We always need to look at the big picture. As a world-class airport, we're doing just that.

When I was nominated to serve as the Commissioner of Aviation for the city of Chicago, Rod Diridon called me and he said "Nuria, I want you to become the first aviation commissioner that runs an intermodal facility." I have taken him up on that, and we are working very closely with our partners at the Chicago Transit Authority, looking at ways to provide more direct service. They've got some innovative things that they're considering. Both of our airports are served by rail, and I know several of you in this room have airports that are served by rail. It makes a whole world of difference when that is part of the equation. We're also looking at pushing the envelope a bit as it relates to air and rail, not only from a passenger perspective but also in terms of cargo. We have DHL, we've got UPS with distribution centers downtown, and they are all putting trucks on the road. With Kennedy and the Dan Ryan already congesting trying to get their goods and their packages to the airports we also have rail systems that serve those airports.

Wouldn't it be an innovative concept if we could somehow use those so we can clear the roadways and help deliver that service?

Hopefully, this will broaden the whole discussion of how we can continue to leverage the infrastructure that we already have and generate some revenue from it. Another thing we can discuss, which is not that innovative but hasn't been discussed in a lot of detail, has to do with some of the other modes of transportation. Air/marine is not a farfetched option. Mort, you remember the old Pan Am clippers that used to come into the terminals

of La Guardia airport? Wow, wouldn't that be great if we could develop a marine link from the airport to downtown Manhattan? I think that would be tremendous. So there are a lot of things that need to be explored. Things that would not only help minimize or mitigate congestion, but would also better leverage the scarce resources that are available for infrastructure and create interconnectivity from a multimodal perspective. I look forward to a very exciting dialogue as we move throughout the panel, thank you.

MORT DOWNEY:

Thank you, Nuria. The idea that the investment you want to make could turn into \$375 million a year for the airlines is really an indication of the opportunities that exist. It's a little after 10:30, and we've got three more panelists.

Will Kempton and his 22,000 employees keep us moving all around the state; Will started at CalTrans and quickly rose up the ladder. This morning, he alluded to the supplementing of CalTrans by generating ways at the local level among the counties and other agencies to bring in funds. In a forum that's talking about our transportation needs and how we developed the means of paying for them, who better than to hear from Will Kempton?

WILL KEMPTON:

Thanks again, Mort. I have so much to talk about and I know there is very little time, but I'm going to try to get through all of the subject matter that I wanted to bring before the group. Let me start by asking how many people in the audience are from California? How many people are from outside of the state? Okay, so it's a good split. I wanted to give you a bit of background, just to explain or elaborate on what Mort just said. In California, like all other states, our major source of transportation finance is through our state gas tax, along with the federal apportionments and grant money that we receive. We have an 18¢ excise tax in California that we share with the local governments, with about two-thirds going to the state and one-third going to local government. But there are some differences in this state that I think are important to note as we get into this discussion. Back in the mid-eighties, because the state was not keeping pace with the need for primarily facility expansion, we entered into an era in California where we instituted local sales tax options programs. There are 18 counties that represent about 85 percent of our population that

have these programs in place. Voters and businesses were asked to dig into their own pockets to pay an additional half-cent increment on their sales tax for transportation purposes. In the nineties, 40 percent of the capital investment in transportation facilities in this state came through those local sales tax programs. That is a substantial percentage. These programs continue, and many of them are being renewed.

In California we have a law known as Proposition 13 which requires a two-thirds vote to approve any tax, so counties around the state are opting by a two-thirds vote to pass these measures. The approval of these taxes speaks to the needs that we have in California, and it is a significant piece of our transportation financing package. Those dollars don't just go to highways; they also go to streets, roads, and transit. They require the support of all modes, although, I don't know if there are any programs in the state that provide money for aviation.

The other piece of financing that's somewhat unique to California is our sales tax on gasoline. Almost every state collects the sales tax on gasoline but most states do not divert those dollars to transportation. There's a lot of discussion in California going on about how our gas tax revenues aren't all going to transportation. Well, the excise tax is constitutionally protected for transportation purposes but the sales tax on gasoline was diverted back in November of 2002. The voters approved what was known as Proposition 42 which dedicated the sales tax revenues on gasoline for transportation purposes. To put that into perspective, that's about \$1.4 billion. With the price of gasoline and the use of gas going where it is, that number is expected to grow. It is a very significant piece of transportation finance in California and other states as well.

Now, the Governor is talking about the voters approving those dollars in November 2005. They previously went to the general fund but in the event of a fiscal crisis, those monies could be withheld. Well, guess what: every year since 2002, we've had a fiscal crisis here in the state, and those dollars have been at least partially withheld until 2004. The governor proposed for the 2005 fiscal year to fully fund Proposition 42 for the first time. He did so again in 2006 and 2007. And now we have a proposition on the ballot, Proposition 1A, which is intended to tighten up the controls on the diversion of those dollars away from transportation. It will still allow the state government to take those

monies in a year where there is a serious problem, but it will preclude any and all borrowing to twice in a ten-year period, with that ten-year clock beginning on the first borrowing. Also, you have to pay those dollars back within three years and you can't borrow again until you've repaid the first borrowing and all of the dollars that have previously been borrowed. I wanted to give you that context, because that is a little bit different from how other states operate.

I want to talk about a couple of things today: I want to talk about the AASHTO recommendations, and then I want to talk about some of the political realities. First, let me mention the governor's strategic growth plan. When the governor entered office in 2003, he had a three-pronged objective for his term of office: recover, reform, and rebuild. Well, for those of you from California, we did recover, and we are in good shape and moving in the right direction from the standpoint of the economy. On "reform," which the governor proposed to the voters last year in a special election, we were not as successful, but the governor was undaunted. So now he has moved ahead with the rebuild piece of his program and which we are now engaged in. The voters have been offered a package of \$37.3 billion of general obligation bonds to invest in the infrastructure of the state of California. Of the \$37.3 billion package, 19.9 billion is for transportation and that's part of a plan that is intended to invest some \$222 billion in California's infrastructure over the next ten years. A hundred and seven billion of that will be earmarked for transportation, with bonds representing roughly a one-fifth of that. In California, we have underinvested in our infrastructure for the past several decades, so it is a catch-up approach with respect to the bond package. That initial \$20 billion will go a long way towards bridging the gap between the level of investment that should have been made and what we need to make as we move into the future.

Coupled with the strategic growth plan were a series of reforms. I'm not going to enumerate all of those reforms but one of them was particularly important. It granted the authority for public-private partnerships. In California we cannot enter into public/private partnerships. We tried this back in the early nineties, but it was abandoned. Now we have been given the authority for four separate projects: three in Southern California, and one in the north (our state is long and we divide our transportation finance and other issues on a north-south basis). Two of these projects never got off the ground due to environmental

reasons, but two are underway. One is on the State Route 91. It is a facility which is to be used for tolled traffic. The second is under construction and will be open to traffic next year; it is on State Route 125 in San Diego. These projects are the first of their kind. I believe that 91 was a success, even though people in Sacramento will argue that it was an abject failure.

The fact of the matter is that when it was first developed by the private investors, 91 was successful, and it's always made money. It's just not made the level of return that was anticipated initially. So it was subsequently bought by a public agency: the Orange County Transportation Authority. But we think the State Route 125 project we're looking at very closely, which is eleven miles of toll facility from the border up to the central part of San Diego County, is going to be a big success. But when we went to the legislature this year as part of the governor's strategic growth plan and asked for authority, the legislature was very reluctant to support the project.

I was telling somebody in the audience that Asha Weinstein's survey work supports exactly the position that the legislature took. They would only give us authority for truck facilities. In fact, the authority we got through our reform package is limited to three axle vehicles, so the only thing that we can spend money on or work to achieve a public/private partnership investment involves the movement of goods. While that is positive news because we need to do that and we need to look at an option of moving goods out of our ports quickly, they would not give us that broader authority to allow us to invest in general public/private partnerships across the state.

I tried to stress to the legislature that there is \$38 to \$50 billion in possible private investment out there looking to be invested in transportation facilities. We cannot build it all out of the public trough, so we want to take advantage of these funds. This is not because we want to see a wholesale switch in California from freeways to toll roads, but we should have every tool in our box ready to apply for the development of transportation infrastructure. We want to take advantage of some \$50 billion of investment capital that is sitting out there, and it will help us to meet our goals.

I recently attended the AASHTO leadership conference in Minneapolis, Minnesota. What struck me most about that conference was that maybe 30 of the state's CEO's were

represented at the meeting, as well as the singleness of purpose, the consistency of the problems that we face, and how we think they need to be addressed. I could have written the script for the program in terms of the approaches we're trying to take in California to accomplish our goals. But AASHTO, which is no longer just a highway organization, has been a strong voice for transit, and at some point, we're going to have to get aviation in that mix as well.

We are making a recommendation to our board of directors at the annual meeting in Portland coming up at the end of this month, and I wanted to give you a preview. I chaired one of the policy committees that were looking at the question of transportation finance, and I'm also the chair of our standing committee on finance and administration. I wanted to give you a preview of the recommended actions that we are proposing. None of this has been approved by the AASHTO Board of Directors, but I think you'll find that the recommendations that we made are generally consistent with a lot of the other transportation organizations that are considering this question.

First, the entire transportation program faces an immediate crisis. We know that at the current revenue levels we will not have funds sufficient to provide for all safety obligations through 2009. It is estimated that there will be a 25 percent reduction in the highway safety program funding levels, from \$43.6 billion to \$32.4 billion. That's a reduction of \$11.2 billion due to highway trust fund account shortfalls. In order to ensure a minimum acceptable highway account balance, enough to cover outlays and support for the safety programs and their growth levels, this essential fix requires the infusion of up to \$5 billion in 2009. Now, a lot of our bosses are running for reelection and several of the other members of this committee and AASHTO are in the same situation. The gas tax at this point isn't the most palatable kind of discussion to have in Washington or in Sacramento, but \$5 billion equates to a 3¢ federal fuels tax increase in 2009, assuming that the current highway trust fund revenue allocations between the highway account and the mass transit account are maintained.

We're proposing to adopt a series of funding and financing principles that will assure the stability and appropriate growth in surface transportation programs. We also think there are some policy considerations that need to be undertaken or need to be considered in the

process. First, we need to look at inflation neutrality. When we look at the current source of primary revenues for transportation, we look at the excise tax on gasoline, which is a true user fee. In my judgment, it's been very effective in meeting out needs as was outlined earlier in the discussion. What is really hurting us is the fact that it is not neutral from an inflation perspective. So as inflation grows and those account levels remain relatively static we find we have a huge problem. We need a broader based user-pay correlation and we need collection ease and efficiency that takes into consideration internal and external impacts.

We looked at several funding scenarios and compared our funding levels for the future of transportation against the 1993 level, which was the last time the gas tax was increased. We used the figures from '93 as a base in terms of looking at how we have to maintain the purchasing power of our transportation revenues. We went through three separate scenarios. We looked at a variety of revenue options which were all pretty mundane. They weren't on the cutting edge of some of these revenue options, but there were a number of options that need to be looked at and talked about.

Perhaps the most innovative recommendation that will be presented to the AASHTO Board of Directors is the creation of a transportation revenue advisory commission. This would assure an objective review and implementation of revenue options. Congress would be responsible for appointing this commission. The commission would conduct analysis and review what's necessary to make revenue option recommendations and then would submit user-fee recommendations to Congress. Those recommendations would go into effect automatically unless Congress voted to reject them and that approach would build on the work of the SAFTEA-LU.

I think we have to be concerned about the political realities that exist in this discussion. It is one thing to talk about what makes sense from an equity perspective, but we also need to address what makes sense from a user-fee perspective. It all fits under the umbrella of political realities with respect to gas tax increases and things of that nature. The fact of the matter is that we have to do things from our perspective. When I say "our perspective," I'm talking about the transportation lobby—not just the public sector but the private sector as well. We have to become more efficient, we have to be able to

establish that we are doing a good job with the revenues that we have already been provided. I don't think we're doing that job well, and I'm not talking about the way we're handling or spending money. I'm talking about the promotional side of the equation. We do not tell the public what we do with their money, and we do not tell them what we do well. We do a lot of things very well and we need to be out there promoting our activities.

Hopefully, you will see in the next couple of months some promotional activities coming from CalTrans. We've got a lot of things to talk about in terms of safety and picking up litter and other things, but we are also an agency that is here to get you there. We're going to tell the public that, they need to know that their state Department of Transportation is providing the best possible customer service that it can. It's the same thing with VTA; it's the same thing with all of the other transportation agencies. We must do a better job of selling our product and telling people what we're doing with their resources. That's going to help lay the groundwork for identifying needs and make people feel better about the fact that they need to produce funds to meet those needs.

Finally, I would like to say that we need to go beyond the transportation lobby. We can't just take the folks in this room and go to Washington and say, "We need more money." They need to hear that from businesses; they need to hear that from education; they need to hear that from a broader cross-section of people. I'm excited about the chance to share thoughts on this important issue. With that I will close, thank you.

MORT DOWNEY

Thank you, Will, and this pairs very nicely with Asha having said the public is willing to be educated. Will said he's ready to educate them and we've seen in this state that an educated public will make good decisions about how to invest. Will also raised the point of the private sector. Dave Turney, who I'm going to introduce now, embodies this subject. Those of you that know from him from APTA know he has been Mr. Business. He is currently chairman of the board, CEO and president of DRI. Behind that there is a long history of other firms that he has been with, all of which have been successful providers of services to the transit industry not only in this country but abroad. His guidance and his leadership within the industry in outreach to business has been invaluable and effective. Dave has a BS degree from University of Arkansas at

Fayetteville, he participated in a number of postgraduate courses and is a trustee of the Mineta Transportation Institute.

DAVE TURNEY:

Thank you, Mort and Will. What you both said resonated in a panel that I moderated yesterday. One of the key points that just came from the survey was that we do not toot our own horn enough. We do a lot of things right, and the public needs to know that.

First, some disclaimers: the things I talk about here are going to be aimed more at transit than highways. Additionally, you should realize that I'm not going to try to delve into the details of financing mechanisms because we've got others with a lot more expertise who will do so later. I'm going to deal with some lessons learned from the last reauthorization and I'm going to offer an observation on what may turn out to be a key element in our innovative financing availability. First lessons learned: continuing resolutions are not acceptable. We are talking about wanting to attract innovative financing, and, any way you slice it, that means bringing money in from the private sector to the investment community.

Norman Mineta had the wisdom 14 years ago to put together the type of legislation that would make our systems work. You don't build and plan transportation systems a few months at a time. We had two back-to-back six-year authorization bills, followed by two-and-a-half years of continuing resolutions. The damage done to that and the credibility of our industry in the financing community is astounding. The damage done in the private sector is astounding. We are a public company, we report on the NASDAQ and the SEC. You cannot see the internal numbers of most of my colleagues in the private sector, whereas ours are very visible. I'm here to tell you that continuing resolutions took 30 percent annually of the revenue of our company for two years running. I'm also here to tell you that I know that the same thing happened in the private sector of those companies that are privately held. This is not acceptable if we really want to attract innovative financing. Second, let me comment on the continuing resolutions. I understand the political dynamics dictate that we either take those continuing resolutions or get a bad bill. I know where we go, and my message is: we've got to figure out how to get it done before we get to the expiration of the legislation. We have to anticipate the delay in funds

flow brought about by changing regulation and the rulemaking process. We also have to minimize their impact on the funds flow or we undermine our credibility for the private sector. Public/private partnerships will play a major role in the next wave of financing in our industry, but let's not forget that these partnerships mainly address major infrastructure projects. A lot of people in America depend on small bus operations and bus vehicles, which may not fall under the public/private partnerships.

Now I want to talk about something that will be a significant financing opportunity: we are a public company. I've always tried to talk about transit, mobility and ridership whenever we do announcements about our company's performance. Two years ago I started to see that when I would put out a news release that talked about ridership, it would resonate with the investment community. The investment community and the general public understand that ridership on transit is important. Wall Street gets it, and they realize that there's something good that's going on in transit that they want to be involved in. In fact, even hedge fund money is coming into our industry now. Some people would characterize hedge fund investors as being bottom feeders. They're only going to buy that which is distressed. Well, to some extent that is true, but you need to realize that hedge money is not going to come here unless it sees a way to make a nice gain and an exit in the process. That means there's an attractive investment opportunity in transit.

Right now, we should be in the process of developing the financing mechanism that will bring Wall Street to the table with us. We should have forums in New York City, and we should have forums around the country designed to bring investment bankers in and get them to help us. They can aid us in figuring out what to do in the legislation, and what we need to do to innovatively finance.

Things are going to be different this time. How many times have I heard that? Mainly, this is aimed at the financing dilemma we face. With the gas tax, and the decline in that funding of our industry, I think no one has taken the time to list everything that's different this time and what it means to us. There are factors other than just the financing dilemma brought on by the decline of the gas tax; there are many other factors that are

different. So, now I'm challenging you: let's get a list of what's different, and let's anticipate what that might mean for the financing of transit. Thank you.

MORT DOWNEY:

Thank you, Dave. I think you're absolutely right. The assumptions have to be looked at. If we stick with the same assumptions, we will do what has always been done. Our next panelist, Art Guzzetti, is here, and I'm sure he'll explain on behalf of Bill Millar. I've talked to Bill Millar, and he's very sorry to miss this event, but he was asked to come down to Los Angeles and present the transit system of the year award to the MTA. I'm glad it gave us the opportunity to hear from Art, who is responsible for policy research at the APTA. I know he steals some of it from the Mineta Transportation Institute, but he thinks up a lot of it himself and presents it to the public. He has the benefit of having been a transit operator, not just a think tank participant. He does a terrific job and I look forward to hearing from him.

ARTHUR GUZZETTI

Thank you, Mort. Typically I would start a talk like this by saying I am one of the 33 million transit riders today, but I would not be telling the truth because I just came down from the hotel room. But the day is young, and I may well be one of those 33 million before the day is over. We are currently winding up a truly wonderful week in San Jose that APTA has just held. And I'm happy that I get to cap it off by participating on such a distinguished panel. I also have the impossible task of pinch-hitting for Bill Millar, which isn't easy. The fact is, I am a sad substitute for Bill Millar. I have not only worked for him ten years at the APTA, but also for ten years prior to when Bill came to APTA to be its president. Bill and I worked together when he ran the transit system in Pittsburgh. One thing Bill would say, as he said at the annual meeting very articulately, was that the long-term trend for transit is good. The long-term trend in the past 10 years is that transit ridership has increased 25 percent in the country; in fact there was a 3.2 percent ridership growth this year alone. That's more than the population growth and that's more than the vehicle miles traveled on the road system increases. So the statistics are in our favor.

I think the big trend is being driven by the fact that we're giving people good choices. They're going to make choices out of self-interest. If transit offers them the way and makes the best sense for their daily trips, people will use transit. We need to give people the right choices, the good choices they will ride. If the choice isn't good, if it's waiting out in the rain for 40 minute headways, then no, it shouldn't be a surprise that people won't choose transit. Too many times, the only choice is the auto trip and three-quarters of Americans do not have a good choice to ride transit. We need to change that.

I'd like to tell a personal story about my daughter, Angela, who just got married on July 29 and is now living in St. Louis: They just opened a new transit line in St. Louis, and I gave her a call, and asked if she could attend the grand opening of this line. She asked what time the event was, and I told her that it's at 9 o'clock on a Saturday morning. I called her afterward and I said, "Angela did you make it to the grand opening?" And she said yes, and that she brought her new husband, Joe, along with her. I asked her, "What did you think?" And she said what Mr. Millar said: that we might think of this new line in terms of the benefits that it's going to provide in terms of congestion relief, mobility options, and in improving our air quality, but also that it is not going to just provide those benefits today but over the next 40 years. It's a legacy; it has a lasting benefit and one that I'm very proud she recognized. I didn't coach her to say that, but that's what she came away with.

I would like to echo some of Mort's thoughts on history and legacy—those thoughts that I think are often overlooked. If you look at transportation historically, it has functioned as one of the primary ways in which the government has supported functions of government, defense, commerce, and interstate commerce. Historically, this is the trend. In George Washington's administration, one of the things they dealt with was trade routes. Thomas Jefferson's administration built the first national roads and roads going to the pioneer territories. Abraham Lincoln had a great vision of transportation which he supported through the construction of a national railroad network. Dwight Eisenhower is recognized and remembered for his transportation vision in constructing the interstate system. More recently, in 1982 Ronald Reagan signed the bill that made the federal program truly multimodal because it said for every cent that goes into the transportation trust fund, 20 percent of those funds go to public transportation. George Bush passed the

IST law, which Secretary Mineta has his fingerprints all over. Going to the Clinton administration the T21 law ensured that money comes back to the states for transportation, and that it comes back to the communities that led to dedicated funding provisions. These funding provisions are used for planning but also for financing. A dedicated dollar is worth more because you can leverage it; you can plan in many, many ways.

So you might ask, “What is the APTA’s vision?” Bill Millar referenced this earlier in the national surface transportation policy and revenue study commission at the hearing in Dallas. What we need to do is capture it in a compelling statement that will spark the imagination of the public. The two greatest public works achievements of the past century had a one-sentence blurb that helped define that vision. First, the interstate highway program, New York to San Francisco, was defined as “Without a red light.” This one sentence defines what it is we were talking about. For the space program, President Kennedy’s goal was “To land a man on the moon and return him safely to earth by the end of the decade.” That vision defined what it was that we were trying to accomplish and allowed us to try to think about something that could help suggest that.

The U.S. is going to hit 300 million in population any day now, and it will only take 30 years to hit 400 million. Most of that growth will be in urban areas, and we’re going to need a strong transit component to help address this growth. My vision of the future is: I see the highways with the automobile continuing to be a travel choice for many, but transit will be a more prevalent choice. In many of the suburban areas you will no longer require a three-car garage, because you’ll still want to have a car, and it will be beneficial to have a car, but more household trips will be taken by transit and more household trips will have the availability of transit.

Let me tell you a personal story. The other night Jim Swofford and I had dinner, and after dinner he asked whether I wanted to see anything in San Jose. I said that I’ve been to San Jose twice, both wonderful visits, but have not yet made it to the Rod Diridon Transportation Center. And Jim said “That’s really what you want to see?” And I said “Yes, I do.” We went there, and there was a capital corridor train there. I know the ACE serves that station, and there was a Caltrain there, and I know Amtrak serves that station.

There's also an LRT connection there, and they're going to have a BART connection there. It is a hub of regional mobility.

I would like to go over two recent reports that also help define a vision. One is done by a Washington think tank, a conservative think tank known as the Hudson Institute. There are several themes that I think are worth considering. One theme is that transportation is an all-in-one system. We should view it as an all-in-one system, plan it as one system, manage it as one system, and finance it as one system. You can do that by considering it as a system as those in for-profit business do. There can be a portfolio of assets where some are cash cows and some might not make money, but together they work to give you the magic mix that you need to make things work. Another theme of the Hudson Institute report was that there needs to be a broader role for transit providers. We can't just be managers of assets with the goal of putting rubber on the road every morning. We need to view our role in a much broader context. We need to view ourselves as managers of mobility, and there are many ways that we can demonstrate that to the public. Another theme involved a long-term vision of financing that involved MT fees. There are technologies that exist now that can enable us to do this. You can put transponders on cars, and charge according to the time of day, congestion, the corridor, etc.

Another report made by the U.S. Chamber of Commerce in November of '05 reported that as a society we're under-investing in our transportation system. It's hurting the underpinning of our economy. We need to be investing more, and we need to consider raising taxes, with emphasis on specifically indexing the gas tax.

I want to make just two other points, and I'll do them succinctly: The first APTA commission hearing was in Dallas, TX, and it was no accident that it was in Dallas, because Dallas is doing a lot of things on polling, pricing, and public/private partnerships. The APTA is trying to be a part of all of those things, but one of the commissioners looked at the panel and said "Wow, you're doing such good things in Dallas, maybe the best thing for the federal government to do is just stay out of your way." Without hesitation the MPO director in Dallas, TX, Michael Morris, said "Well that would be true if we were looking at this region, sir, but we're looking at the whole nation, we're looking at a national economy, and we're looking at the competition from China and

India. We have to look at things nationally, not regionally. That is going to involve a federal-state local partnership.” I say amen to that.

The APTA unveiled three products at this meeting and I’m not going to talk at length about them, but I do at least want to mention them. One of them is a report titled *Public Transportation and Petroleum Savings in the United States: Reducing National and Household Dependence on Oil*. What they were trying to do is make points on the energy debate. Several energy bills have come and gone, and transit transportation has not been an issue. Well, public transportation saves petroleum. In 12 months 1.4 billion gallons of petroleum are saved just by existing public transportation use. What the heck is 1.4 billion, what that does that mean? Well that’s a full oil tanker leaving the Middle East every 11 days. Three hundred thousand gas station fill-ups a day. That’s an illustration of how much public transportation currently saves. A second report studied transportation finance at the ballot box. Voters tend to support increased investment and choice. Given the multi-year trends, we thought that transportation ballot measures and the public generally supporting them, that maybe there’s a story there. This report tries to tell the story that the public does recognize the need for more transportation options and the need to pay for them.

Another report was presented at the meeting, which was a little more technical. This report dealt with how we can plan for the future. It said that we have to be positioning projects for the future. The projects have to be ready, and while there are a lot of projects being funded now, we need to make sure the projects are being positioned properly.

Another report is going to come out on Monday, *Commuting in America 3*. Basically, this is a report that looks at transportation commuting trends and travel behavior. There is also a report coming out on funding needs, although this report is older. I did want to mention today that *Healthy Returns: The Economic Effects of Surface Transportation and Motor Fuel Taxes* is being released by Robert Shapiro and Kevin Hassett. These are two prominent economists who know the way that user fees and taxes affect the economy. This report does say that the gas tax is a tax with direct ties to transportation. Well, that is the end of my speech, so thank you.

MORT DOWNEY:

Thank you, Art, for reminding us that the voters are ahead of us and that they're showing us at the polls and through ridership. Also, thank you for identifying the research products that are coming out.

Let me mention three more reports that will be released at the Foundation Forum coming up in December. These studies deal with key issues: population growth, immigration, land use and development, and the environment. So we're building the case, intellectually, that maybe someday everyone will want to visit transit stations on their vacation. I was in Beijing a couple of months ago, and if you don't mind spending the afternoon on a subway, what better way to see what's going on.

Let me open it up at this point for the questions that you might want to present to any of our panelists with respect to the issues they've raised. There's a microphone here if you would like to use it.

QUESTION 1:

I'm a transit person, but my question has to do with toll roads, and it's addressed to Director Kempton and Professor Weinstein. I'm not an academic, but I am a political observer, and it seemed to me that about ten years ago there was a discussion about toll roads in Eastern Contra Costa County. We were not really talking about private money, we were talking about traditional gas tax transportation money, but the people who were promoting the toll road went around to all of the local communities and insisted on a chunk of their bonding capacity. I'm just wondering what some of your thoughts are on regulatory control over toll roads to make sure they are really bringing in private money. Also, looking at some of the stuff that's been done in France and Spain, what kind of statutory framework do you set up to make sure these things work and to make sure these are not some way to hustle more money from the government?

WILL KEMPTON:

That's a very good question because we've had these discussions relative to the two projects that I have talked about that were authorized back in the early nineties. That was one of the criticisms of the transaction that took place in Orange County with the transfer of the State Route 91 toll facility. Initially the private sector group was looking to obtain

some public resources, and that's been hard to live down. Any privately owned road has to retain a distinct division between public and private. In my appearances before the legislature, this question came up time and time again: "How do you protect the public interest?" Because one of the major selling points that we have, at least in the construction of the facilities, is the transfer of risk.

We have some issues going on with the State Route 125 project right now. As we look at the construction issues, private companies want to come to the public and say, "Can you help us out here?" We cannot have that, the legislature will not accept these projects if there isn't a clear distinction between public and private. So we have to build our statutory guidelines in a way that ensures if we are going to try to attract private investment, that it is absolutely private. They take on that risk and public funds are left out of the picture. I'm certainly a proponent of public-private partnerships, so I don't want my comments to be misinterpreted, but it will be interesting to see in the case of Chicago and Indiana, what happens ten to 15 years down the road. We have to wait and see if there are any difficulties. The agreements that have been developed at this point seem varied to me. I've looked at them and our experts have reviewed them, and it seemed to me that it is necessary to draw these kinds of distinctions that you're talking about. However, if there are issues, if there are long-term or unforeseen maintenance or rehabilitation issues, will the private sector be coming back to the public for assistance? If we're going to have true public-private partnerships we cannot allow that.

I do think there's a role for the public sector. One of the things that we did poorly in building the process for the initial four projects that I spoke about back in the early nineties, was we told the private sector that they had to take the full ball of wax. They had to take the project from what I call the twinkle in the planner's eye, all the way back through to operating and maintaining it. But the fact of the matter is that the public can play a role in terms of environmental clearance. In California we have a very comprehensive environmental law called the *California Environmental Quality Act*, in addition to NIPA, and so one thing that the public sector can do is obtain that environmental clearance. The public sector can be paid back for the investment in getting that environmental clearance so the risk to the private sector is significantly minimized in terms of coming in to make that investment. So I would see that as an appropriate role in

the public sector in terms of getting that product ready to go to market and then turning it over to the private sector.

QUESTION 2:

From your point of view of the research and public opinion, how do these issues help to shape that?

ASHA WEINSTEIN

I think I would have to say that I am a student of public-private partnerships, but not an expert in the details of the contracts. I think that this is a case where public opinion does not come into play as much; it's more of technical planning considerations. Let me point out a couple of things quickly. First, I agree that the devil is in the details, and structuring these contracts in a way so that everybody wins—both the private and the public sector—is very challenging. It's something that the public sector isn't experienced in: doing deals with private investors. So I think it's an issue that we need to take very carefully. Second, as a planner, I think it's important to remember that we want to take a big-system approach. Several people today have very wisely pointed out that we need to be planning our transportation network as a network. One of the concerns—or just risks—we have to weigh on the public end and in the public interest is whether we want to be planning ten to 20 years from now, for improvements to our network. If too many pieces are tied up in private control, we may be limiting our ability to do network-wide planning. So I'm not saying that is a reason to be against public-private partnerships, but it's something that should be taken into account when you are thinking through what the implications are.

QUESTION 3:

Why do you think that you get different polling results to the questions on toll roads, such as those that have designated truck lanes?

ASHA WEINSTEIN:

That's a really interesting question. I suspect that some of the reasons people were supporting the truck-only toll lanes are that they are thinking, "I'm not going to pay it." But I also tend to think there seems to be some evidence that people don't really like

driving next to trucks. I'm guessing that one reason that people were saying, yes, that's a good idea, was just that they saw it as a way to get trucks out of the mixed-flow lanes.

QUESTION 4:

This is a question concerning what you called an "environmental fee;" did you categorize the responses by who owned and who did not own a "green" vehicle?

ASHA WEINSTEIN

No, we didn't, and I'm wondering how many people responding to our questions were aware that they may have had relatively un-green vehicles, so that's another open question.

QUESTION 5:

This question concerns a report that's coming out the day after the election, which is going to probably recommend talking about a partnership for building roads, private-public partnerships. When I sit and read the map on some of these projects, it has been said that these projects will be getting \$1.9 billion. That is really the present value of about a hundred years of cash revenue. That's a significant amount of money that may or may not be used for highways or transit. Are these public-private partnerships playing at the same game as the rest of us? What kind of rules will they have to follow? Do they have to abide by those rules since they're a private company? And what if they are not abiding by them, say, because they don't have to pay prevailing wages?

Indiana got \$3 billion for selling its assets; Chicago got \$1.9 billion for selling its assets. To me, selling those assets is like a home equity line: you're selling your house to get a TV set, and the math does not make any sense. Maybe it's just because the math has not really been widely disseminated.

NURIA FERNANDEZ:

One of the things I would like to offer as an example was what the city of Chicago did at the time we did the Skyway deal. We used that deal as a template for looking at Midway airport as an opportunity. There was an existing asset that needed a lot of work, and here was a private investment company saying we can take that asset off your hands, and do the upgrades quicker than you can, and give you \$1.8 billion in the process. So, yes as we

think of instant gratification and what the long-term implications of that would be, but could we have gotten more had we structured it a little differently? Possibly, but there were some immediate needs that the city of Chicago had, and one of them was funding the pension, and they needed some for education, and other infrastructure improvements that were going to be necessary. So they saw this as a tremendous opportunity. It is a long-term lease, 99 years—that for all intents and purposes can be called a sale. However, we don't call it a sale; we call it a long-term lease.

WILL KEMPTON:

I would add that from California's perspective, and it is a fine point that Nuria makes, that these are leases, they're not sales. Those revenues do come upfront to the owner. I had the pleasure of attending a conference with Tom Sharp, commissioner of transportation of Indiana. He was pointing out that they were able to take \$3.4 billion from the lease of that facility and round out a \$12 billion transportation program. I would agree that those revenues that come from asset leasing and that sort of thing need to be dedicated to transportation. That wasn't the case in Chicago, but they had other needs. Of course, they have to address their issues as they see potential benefits. I will tell you that we did not know what we were doing back in 1990 when we were trying out those four projects that we had been given authority to implement in California. There's been a lot of experience gained from this time and other states and from other countries that have a lot more experience. Now we can in draw on that experience as we enter into these agreements. All of the points you raised in terms of the maintenance requirements, even the tolling requirements, the requirement for following the Davis-Beacon Act, all of those can be built into those franchise agreements that you enter into with those private investors. They need to know what is in the package they are about to buy, and if you can sit down and negotiate all of those things, that really is the key. Again, I think we will be able to rely very heavily on the experience that has been gained over the past fifteen years.

These are business transactions; there's a "buy" side and a "sell" side. If there is \$50 billion on the buy side, it's a lot of leverage for the sell side, "but here are the conditions I want." Some of the new contracts come out with an upside potential. If things turn out

better than expected, which might well be the case, they're going to share. Things are evolving, and they certainly have evolved since 1990. But if these occur, both sides need the best brains at the table to be able to put those transactions together. Anybody else on the panel want to answer that question or the previous one?

QUESTION 6

I have a short, logistics-type question for Asha or Mort or any of you. Are there reports or any type of documentation on the best practices that address some of the issues raised by the last question? I thought that was a good question, and there are a lot of issues raised by such a question. Are we foregoing some of the other objectives that government has been asked to do when a private-public partnership is put in motion that somehow makes it seem more feasible or competitive? Are there any reports yet that are starting to address putting those types of evaluations together?

UNKNOWN PANELIST:

Whatever the toll road solution is, it must be a solution for corridor mobility. This is more than just paying for the road. I'd say that's less important. I would also suggest the corridor mobility strategy needs to include transit. In San Diego the best example is where they have integrated transit into the project in the I-15 corridor down there. With its exclusion from HOT lanes and the other toll projects, transit is totally left out of the equation because it's a private transaction where the idea is return on investment. Transit is almost always viewed as a siphoning of investment, so to have the transit integrated from a service point of view might work out. There are a few straws in the wind now looking at these few deals and drawing some conclusions. I think it is very important that we get transparency and that people know what's happening and know how to build on it. It sounds like a research topic to me.

MORT DOWNEY:

Before we get started with the scheduled part of this afternoon's program, we have one unscheduled and very pleasant piece: it's my privilege to introduce to you Doreen Jacopani, the U.S. Department of Transportation representative to the Metropolitan Transportation Commission here in the Bay Area. Doreen has been representing the

federal interest for ten-plus years locally and doing a terrific job at it, so let me turn it over to Doreen.

DOREEN JACOPANI:

Mort, thank you for the opportunity to have served with you when you were the deputy secretary of transportation. I really enjoyed it. I would also like to thank you so much for everything you've done for the county and for the region. You may know that Rod was a chair of Metropolitan Transportation Commission not too long ago, so it's my privilege to be on the Metropolitan Transportation Commission representing the interests of the secretary of transportation.

I want to welcome you all to the Bay Area on behalf of the Metropolitan Transportation Commission, which is the MPO for nine Bay Area counties. I'm here today to thank and to honor Norman Mineta on behalf of the Metropolitan Transportation Commission.

When I think of Norm's work, I think of the very rights-oriented focus that he has had on transportation. I worked for him when he spearheaded the effort to provide redress to Japanese-Americans who were interned during World War II. I worked for him when he was instrumental in the writing of the transportation components, then the passage of the *Americans with Disabilities Act*, and I watched on TV when Norm was balancing the needs of safety and the rights of all Americans right after 9/11. So that's my tribute to Norm.

When folks at Metropolitan Transportation Commission first heard that Norm was leaving, people began to use the "R" word. We kept saying "Oh, Norm's retiring. We'll have to do something." I said, I just saw Norm in DC in March, and I talked to his staff, and he's still running them into the ground the way he ran me into the ground when I was 25, and so I don't think Norm's retiring. So what I'm here to do today is to honor Norm for his tireless commitment to safety, to inter-modalism, to innovation, to local decision-making and to mobility for all. Not just for his work in the past, but his ongoing and continuing work in that area.

SECRETARY NORM MINETA

Well, Doreen, thank you very much for the honor that's been accorded to me by the Metropolitan Transportation Commission.

When I think of the ISTEA, the *Intermodal Surface Transportation Efficiency Act* of 1991, one of the components in that legislation that was so important for state and local governments was to work transportation programs through the MPOs. The Metropolitan Transportation Commission was what I wanted to see happening across the country.

Larry Doms, who was then head of Metropolitan Transportation Commission, was one of those pioneering individuals with the vision for what had to be done. Projects are now planned on a systems-like approach, not community by community, but collectively by region. That same work is now being carried out by Steve Hemminger. The Metropolitan Transportation Commission as an RPO, Regional Planning Organization, was really the format that I used in putting together ISTEA, so now there are RPOs across the country that are effectively planning for the long-term projects in their area. To all of you who participate in your RPO, I want to thank you for the great work that you do. I also want to thank Doreen who has always been an inspiration to me. Doreen was born with spina bifida, and I remember how her folks used to always talk to me about her education. They were from Massachusetts, and because of the superior educational system here in California for developmentally disabled children, they thought they would have to move her from Massachusetts to California to help improve her educational possibilities. She went through high school here in town, did very well academically, and got a full scholarship to Harvard. Her parents would say, "Man we moved out here from Massachusetts, to give her an education, and now she's going right back to Massachusetts for her college." Over the years Doreen has been a source of inspiration to me, not only in terms of her determination, but in terms of her ideas about what had to be done.

MORT DOWNEY:

Thank you, Mr. Secretary, in the program for today we set aside a couple of hours to hear from Secretary Mineta, but he wants to speak briefly, so I'm going to try to shame him into speaking somewhat longer than that by giving him a long introduction, even though I know we are both interested in getting on to the point where we hear from you and answer your questions.

To be here in San Jose, to be at the Norman Y. Mineta Institute and to make this introduction, seemed like quite a challenge to me. He is the recipient of the APTA's lifetime achievement award, truly an American icon, and a dear friend of so many people in this room. So what do you say? Well, I say we're dealing with challenges, and that's the whole point of this conference, to deal with the challenges of future finance. Certainly Secretary Mineta is someone who has dealt with challenges since his youth. We've all heard of his many roles, dealing with the supreme challenge of 9/11, making some of the transportation challenges seem a little bit more manageable. But those are the things that Secretary Mineta, Congressman Mineta, and Chairman Mineta has been dealing with for a long time.

I first met Norm when I went to Washington and worked on the Budget Committee, and then later on as a junior officer in the Carter administration. He was sitting down in the front row of the Public Works and Transportation Committee, in on of those three-tiered daises, chairman way up at the top and the two people down at the bottom. But you could tell the power was down there as we did some of the first steps to bring transit and highways together in a single piece of legislation. That's where we went for our leadership. I went off into exile after that for a dozen years or so, but Norm stayed on, rose up through the committee ranks. He was subcommittee chairman for aviation, and subcommittee chairman for surface transportation. He was writing those important pieces of legislation that we all live with, serving extra duty on the budget committee, and dealing with some of the broader issues on the Intelligence Committee. He then worked as chairman of the Public Works and Transportation Committee. That was just at the time that I came back to Washington, and it was good to see Norm sitting at the top end of that dais. Norm then left the Congress, but we dragged him back in, first as the chairman of the National Civilian Aviation Review Commission and then as secretary of commerce and then secretary of transportation.

I went to a few cabinet meetings with him—commerce and transportation sit together—but he always played the most important role, from our standpoint, especially in helping to bring to fruition of the SAFTEA-LU bill. Dave Turney said this morning that we were all upset and frustrated with the long delay, but I reminded Dave, if you want a good bill, you've got to work your way through it.

Maybe someday when he writes his memoirs, he'll tell us exactly what it took to get that bill to the point where it was with its record level of funding. Secretary Mineta has now moved on to the private sector where he is vice chair of Hill & Knowlton, giving public affairs advice, but he's here today pro bono, and we'd all like to get some of that great advice. So let me turn it over to Norm to give us a few thoughts.

SECRETARY NORM MINETA

Thank you very much, Mort. I just said to Mort a little while ago that I think it's really more important that we hear from all of you, in terms of your concerns, as we map out these things. For the next two to three years there are probably going to be three main areas that we have to deal with in terms of finance. Some have already been touched on this morning. A lot has been said; in fact, I could probably say everything has been said. Obviously the whole area of surface transportation and what are we going to be doing in the terms of financing the system in the future can be discussed at great length. First, we can go over the federal gasoline tax, 18.4¢, which hasn't been changed since 1993, and when you look at the federal level and the state level, you'll probably continue to see the resistance to any increase in the gasoline tax. When we were first putting together our draft for the tax, I had a 2¢ increase in gasoline tax in the first year, 2¢ in the third year, and 2¢ in the sixth year. When I presented that to the president, he said, "I don't want any gasoline tax increase." So we went back and redrafted and took out the gasoline tax increases. In the sixth year I put a CPI in there as it related to the gasoline tax, and it hasn't changed since 1993. It is stuck at 18.4¢, yet everything else has gone up in cost. We had no escalator on the gasoline tax and when the president saw the CPI in the sixth year he said "Norm, that's a gas tax increase, I don't want it." So once again we went back to the drawing board and what we had to do then, in order to come up with a good-sized surface transportation bill, was to dig deeper into the unobligated balance in the highway trust fund. We came up with a \$269 billion program.

The problem now is that with the increased café requirements on automobiles, with more hybrid cars on the road, even with an increase in vehicle miles traveled, the income to the highway trust fund is going down. Tuesday I visited the VTA yard here and they have several fuel-celled vehicles. So as we see more and more of these types of vehicles

coming out in the future, not only as they relate to transit but to automobiles as well, there is going to be less and less income coming into the highway trust fund.

The second area of interest is the one that Nuria touched on earlier. We have an aviation bill ready for consideration, but OMB [Office of Management and Budget] made the decision that they didn't want it released before the November election. But the problem is that reauthorization has to be completed by September 30, 2007. That's a very tall order because Congress will come back in January and they'll go on recess for the balance of January. Then they'll come back in February to organize, and it will be March before there's even any daylight to think about legislation. When I think about having to get that major piece of legislation through by September 30, I can see the delays that I saw surface on a past transportation bill which was actually up on September 3 that didn't even get started until August 10. So we've got some major issues in aviation, and with the major split between commercial aviation interests and general aviation interest, there is going to be a tremendous amount of lobbying going on when Congress comes back into session.

Now I'll divulge a secret here, because it's one I think, from a policy perspective, still has to be accomplished. One of the things that I'd like to get into, and have wanted to get into, was the whole issue of what to do with ports, seaports and maritime. One of the things I wanted to do at the DOT was to put the maritime administration, the St. Lawrence Seaway Development Corporation and the Corps of Engineers into one unit. Some people might ask, "What are you smoking or drinking?" But one of the goals we have to reach in terms of maritime is short sea shipping. With I-5 on the West Coast and I-95 on the East Coast already jammed with vehicular traffic—cars and trucks—the question is what can we do to relieve that? At some point we can no longer just build more lanes; however, we can use the water as a highway and do short sea shipping on both coasts to relieve road surface issues. We could also use the Mississippi, the Great Lakes and all the inland waterways much more efficiently. You can have a shipment go from Rotterdam all the way to the Black Sea, yet we have no public policy as it relates to maritime policy on the utilization of our waterways. I explored this whole idea with Secretary Rumsfeld, and he was actually in favor of it. The defense department really doesn't belong in civil works, but we ought to move the Corps of Engineers Civil Works

program out of the department within about four months. At that time, the army was starting to gear in on Secretary Rumsfeld, and so when I continued my conversations with Don, he got more and more distant about that subject and we never really concluded it. But I know that there are forces within the White House and those on the domestic policy council, among others, who think that this is an important discussion.

What this really speaks to is something that everyone earlier has mentioned: that we can't just deal with the financing of the transportation system by mode. We've got to take a look at the whole issue of projects and policies from a system-wide perspective. When I think about the L.A.- Long Beach port complex, of all the containers coming into the country, 42 percent come through the Port of Los Angeles, and the Port of Long Beach. Of all those containers coming into Long Beach, about 45 percent stay in the L.A. basin. The balance of the remaining traffic is moving on to the East, and when we think about movement of those containers and their contents, the vast amount is done by rail. The problem is that the railroads are putting their investment in the transcontinental long-run aspect of railroads, but they're not putting their investment into what I call the last mile. The last mile is probably more like the last 100 miles, because, from port clearance—whether it's to Seattle, Portland, Pt. Hueneme, or Long Beach—their ability to move that traffic from their port to the terminal, which could be up to 50 to a 100 miles from the port, is very limited. This is because they're putting their money in the transcontinental. If it's single-track, they're going double-track, if it's double-track they're going triple-track, but when it comes into Chicago, they're not making the investment in the Chicago area, they're missing that last mile.

The Department of Transportation under Mort's leadership created something which was an amalgamation of all the surface transportation interest in the Chicago area. The biggest miracle was that they got all the railroads to talk to each other and agree to join together. But, again, the railroads are not making that investment in the first and the last mile of their line, so it creates the congestion in the first 100 miles and the last 100 miles, and then the public agencies have to come forward with things like the Alameda corridor. But these projects are just answers to a specific roadblock.

Last year, a record-breaking bill relating to surface transportation, highways, transit, and safety programs was passed. The problem with this bill was that we had to deal with 6300 earmarked projects, which took the discretion away from the Department of Transportation in trying to deal with system-wide issues. Now we had 6300 projects across the country, including ones like the “Bridge to Nowhere” from Senator Stevens. These were all projects of local significance, but from a national perspective, there was no way to tie them in to make it a system-wide approach. So, SAFTEA, in terms of its record size, was a hugely positive piece of legislation, but the 6300 earmarked projects really negated its value as a project from a system-wide perspective.

Currently, we’re seeing this whole issue of financing coming up, and the issue of alternative financing mechanisms. There’s no doubt that public-private partnerships are a possible way to go when you don’t have the ability to raise the gasoline tax at the federal level or at the state level. The problem is that public-private partnerships have only been talked about mainly as they relate to highway projects. We’ve seen public-private partnerships as they relate to airports, as Chicago is doing with Midway, and what Indianapolis did with their airport. But there isn’t enough attention being given to what’s going to happen in the area of transit. I think that one of the things that we ought to do is something that Mort mentioned and something I tried to consider in a bill in back in the late seventies, early eighties. That was to have two budgets at the federal level, one an operating budget, and the other the capital budget.

One of the difficulties I had in dealing with Amtrak was that there are several states that want to preserve routes that have very little value from a national transportation perspective. For example, on the LA to Jacksonville passenger train, we are subsidizing above the paid fare—about \$450 per person. Now, I could put a person on just about any airline and get them across the country cheaper and faster. Yet, there was no way that I could convince Senator Trent Lott to cancel the train that goes to Meridian, Mississippi, or, for that matter, convince Senator Kay Bailey Hutchinson, or Senator Conrad Burns, or Senator Byron Dorgan, or the senators from any of those states the train goes through, that we need to cancel stops and routes. That’s why in our reform bill on Amtrak, what I wanted to do was create a partnership, between the federal government and the states. This partnership would exist in terms of capital improvement on the railroad system and

an intercity national passenger system. We do that with airports, with transit, with highways, we have a capital improvement partnership program. I think that we ought to be able to do that with railroads as well, eventually expanding it to include public-private partnerships.

We can go to capital budgeting as we began to in the DOT under Tyler Duvall, a brilliant young kid who's now Assistant Secretary of Transportation for policy. For three years I was in New York trying to get the finance houses to come up with transportation funding when there was little or no interest. That was true until the Chicago Skyway program, when a Spanish company, Centro Capital, partnered with an Australian bank, McCoy Bank, and leased the Chicago toll-way for \$1.9 billion, over a 99 -year period. I remember Rick Lazzio, a former member of Congress from New York who's now the executive vice president of Morgan Stanley, called me up and said, "Norm I just saw this thing about the Chicago Skyway, and I remember when you came in two years ago to talk to us about this. Would you come back and talk to us about this again?"

Now we have a number of companies who are setting up funds, including hedge funds, who are interested in private-public partnerships. But I think that we have to attract that financing mechanism, most of which is talked about in terms of highways, in order to bring more transit programs into the conversation. We have to develop a capital budgeting approach.

A number of us are going to try to see what we can do to build a program to attempt this split-account approach. We'll be consulting with many of you about the impact on large districts, as well as small operating districts, to try and get a new infusion of private equity into public infrastructure. It's something that was the subject of the conversation here in this forum, whether it's Asha's polling to test the temperature of the public willingness to experimentation with Chicago skyway or Midway airport. We need to be examples of what might be done and I think this is where all of you can, and should, fit it into your program as we look to the future. Again, I want to thank all of you for your thoughts and opinions on the matter and I urge you to think about where you're going to be taking your transit properties in the longer view. Thank you very much, everybody.

MORT DOWNEY:

Thank you, Mr. Secretary. It is music to my ears to hear that the capital budget is back on the table. We need a mechanism with assured funding and with the ability to contract. If we had this, we could bring private sector investments in very quickly in substantial amounts. Let us begin with our panelists. Before we begin, let's just collapse the sound bite: if you had two minutes to give everyone a key point that they should be thinking about as they're designing future transportation policy and funding, what is it you would tell them?

ASHA WEINSTEIN:

I'll take the academic perspective since I'm a representative of that community. I mentioned that in this larger study that I had done, we were evaluating a lot of options, and we had identified what we thought were five criteria that are really important to consider when you want to make a major change in your transportation finance program. It is important to keep all five of those things in mind at all times and then try and balance them.

The first was revenue generation, which raises the question of whether you can raise significant amounts of revenue which are predictable and stable over the long-term. Second, implementation issues are important. Third involves equity. Fourth is a category that is sometimes overlooked but is actually a very powerful tool, and that's the idea of transportation system performance. For example, if we introduce congestion pricing as a financing tool, we have the side impact that, at least on those corridors, we reduce traffic congestion, so we're actually improving the performance of the system. On the other side of the road, if we are to somehow increase taxes, for example, on gasoline, it could encourage more people to buy fuel-efficient cars, and then as a side benefit we would improve the environmental performance of our transportation system. Fifth and final is whether a funding source can be considered politically feasible. I think the key to good policymaking is being able to keep these five criteria in mind, and find options accordingly.

NURIA FERNANDEZ:

I'll provide the perspective of an operator, someone who's not only operating a system right now, but who has some experience with federal funding. There is a tremendous

opportunity to revisit the way that we fund programs. We have federal rules and regulations in place today that were designed for programs that were being funded decades ago. So much has changed, we no longer have the resources, and the trust funds are no longer capable of providing the financing necessary. We are having trouble meeting the obligations that we have determined are necessary to keep our infrastructure in a state of good repair. We are having even greater difficulty expanding that infrastructure in response or reply to the increase in traveling patterns in aviation and other forms of transportation. This necessitates that we need to revisit how those funding programs are structured. We're afraid to take a great leap and say, "Let's come up with something that's small and manageable to test the waters." It takes bold people with bold minds and great ideas who want to push that envelope. Look back to Mayor Richard Daley in Chicago who said we can do this, with the Skyway. We weren't waiting for the city to find out if others were going to be able to test this; we just knew that here was an opportunity. We had been approached by an investor with something that had not been tested in the U.S. But we tried it anyway. So I think there is a tremendous opportunity to start to make what we have much more flexible without this dependency on pilots to make it happen. We need to recognize that this the new way of the future, to introduce a lot more flexibility in funding. Of course we need to maintain safeguards so that public dollars are not viewed as being wasted on private ventures, but clearly recognize that we no longer can depend on the public trough to get these projects in place.

WILL KEMPTON:

I would say three things must define any source of funds: stability, flexibility and performance-based. By stability, I mean not only a source of revenue that gives us stable funding over the years, but stable funding source in terms of your ability to lay out a program, to plan it, to deliver it, and to keep it moving. The funds need to be reflective of inflation and grow with the demands and costs. Flexible, because there isn't a one-size-fits-all solution. Across this large country, if we are providing funding we need to give the agencies who are implementing the programs the flexibility to work with their own specific circumstances and allow them to apply those dollars in the best possible way. Finally, these funds need be performance-based. For too long we have just thrown money at problems without actually targeting that investment. We need to establish the strategic

goals to achieve, and then target those investments to accomplish our objectives, and we need to be able to measure our progress. We need to be able to measure our performance.

ART GUZZETTI:

The world is flat, and in an era of international competitiveness our labor standards are higher than those of much of the rest of the world. I say, “Thank God,” being the son of a steelworker. Our environmental standards are higher than those of much of rest of the world—again, I think for good reason. So how are we going to win? We’re going to win by having an education system that beats that of the rest of the world, by having a transportation and logistics system that beats the rest of the world, something we’ve long enjoyed, but something that other countries are stepping up. I also think a secondary thing would be transportation. Seventy percent of oil is used in the transportation sector. So we need to look at transportation as an important part of energy policy and an important part of climate change strategies.

MORT DOWNEY:

Thanks, Art and I’ll just add for the record my 15 minutes of fame in front of the commission. I devoted almost all of the time to the existing system. That’s where we start from, whatever programs we already have. We’ve got to be sure we maintain the integrity and the performance of the existing system and build upon that.

Now, let me open up to the audience. We have the two microphones, so please feel free to ask a question or give us your ideas.

JOE GOALBERT:

My name is Joel GoAlbert, and I live nearby in Oakland. While observing the panel I noticed that a lot of what we’ve been talking about is the development of major capital. But what about all those smaller systems such as the Metro, the MTA, the MUNIs of the world, where you have hundreds and hundreds of small operators out there? This is going to go right over their heads if they’re just going to try to replace their buses at the end of their useful lives. Maybe one way to get around that is with a very simple reauthorization. It might simply say, “Wherever we are now with SAFETEA-LU, ratchet it up for inflation.” And if you want to go beyond that, develop a subordinate trailer bill, or

something like that. I think the challenge ahead of us might be too short a time to get all of the other smaller mom-and-pop operators across the country up to where you guys are now. You might need a whole federal transportation bill of transition for all of the smaller operators to deal with performance measuring, public-private partnership, green credits, all these things that are state-of-the-art now but are going to take years to trickle down.

WILL KEMPTON

I was just going to suggest that the AASHTO approach that I outlined just briefly sort of just takes what you said. We know that in a very short period of time we're not going to be able to restructure the transportation financing system in this country to where it needs to be. So the approach must be to deal with this immediately. Earlier, I mentioned to you the equivalent of the gas tax increase or the \$5 billion that would initially maintain the level of investment from SAFTEA-LU. But there was another period of five or six years where we would probably still see a system pretty much like what we have today but use that reauthorizing period to accomplish the transition that needs to be undertaken. However, beyond 2015, we need to start looking at making some significant changes. It's not going to happen overnight, especially from a political reality perspective, but the impact on smaller operators, on a lot of the transportation institutions that have built up, there's going to be have to be some time to make that adjustment.

ART GUZZETTI:

During the course of our stay here in San Jose, our legislative committee met and considered issues similar to the ones you're raising. We have a process that's ongoing, to deal with these problems, so I invite you into that process. In addition, a couple of things are going on at a national level. United We Ride, a project supported by the Federal Transportation Administration, is part of 62 other federal programs involved in transportation. It does not make sense to have those scattered over 62 different jurisdictions in a locality, so I think a program can benefit small system, and small communities. We need to bring them all together in a coordinated manner. One of Secretary Mineta's initiatives—to have a standard of a mobility option for all communities—means that sometimes, to a degree, rural systems and smaller communities get left out of that, so we need to do better.

ROGER BAISLEY:

First I'd like to thank Norm Mineta for really putting the human factor back into transportation, especially with the issues as ICTEA 21 and SAFTEA-LU, where the public became involved in the process. Historically, there has not been a lot of innovation from public state groups, especially in improving the last mile and the connectivity between different modes of transportation. What concerns me right now is the issue of direct funding formulas. How can we secure the legacy while still providing flexibility in funding? We need flexibility for pedestrian safety infrastructure to become an integrated sustainable part of a balanced multimodal connectivity focus. On top of that, there are many other programs that really fit into that, such as the older driver improvements, pedestrian safety action plans, walkable communities, and raising the MUTC standards. There are a lot of communities that go to the bottom baseline instead of really raising standards. Also, how do you feel about how Homeland Security is raising the cost of securing rail aviation and port assets? Do you feel that that funding is going to be competitive and take away from the funding that we're going to need for lifestyle infrastructure funding for the connectivity?

NURIA FERNANDEZ:

Let me go back to my former comments. When we were at the Federal Transit Administration looking at programs, all of the existing capital improvement programs were funded both with federal and local dollars. We ensured that those programs developed in such a way that the power was really within the community and worked best for that community. So the creation of transit-oriented development—livable communities embracing pedestrian and bicycle transit—is one of the greatest differences from the way that we funded mass transit in the past. By opening it up, making it more urban, more inclusive, and introducing public comments and the regional planning input into the process, it has worked very well. The programs that you mentioned were programs that were around back in the 1970s and have evolved. If I were to look back today I would see where the transit industry has made significant efforts to continue updating programs and make them more accessible. We are now providing the tools necessary for communities and regional organizations.

As funding relates to homeland security and aviation, I will say that the challenges are many and the funding to address those challenges from a local municipality perspective and protecting our airports is becoming extremely onerous. We want to make sure that we continue having safe and secure transportation systems and safe and secure airports and aviation travel, but the reality is that there's not going to be enough money to do everything that will be necessary. We need to focus right now on looking at our air traffic systems and bringing those up to this millennium. Next Generation (NextGen) is coming to air traffic transportation and we are looking at ways that we can continue leveraging our existing funds to make our airport infrastructure, our cargo screening and all of those elements, tremendously safe. We've got mounting challenges, and I do know that there is an emphasis right now on the defense side and on homeland security and a lot of our civil works are being revisited in terms of the priority for the implementation of civil work transportation, construction and funding.

MORT DOWNEY:

Will, you talked this morning about telling the customers what we're doing for them. Are you focusing on your customers in the way this question implies?

WILL KEMPTON:

We are. We're certainly attempting to get our department working to be a better partner to the community. Any of you who are dealing with the California Department of Transportation, I hope you've seen a change in our approach that goes beyond just being a good partner. There are all of our customers out there, the traveling public and others to whom we provide services. I would say we've got a long way to go in providing customer service, and I hope we're moving in the right direction at this particular point.

This issue all gets back to the issue I raised in the opening question this afternoon: "What are the things you'd like to see incorporated in a package of transportation financing issues?" Moving forward with flexibility was one of the terms I used. You have to make money available but the decisions on how to spend those dollars, while there should be some obviously national strategy and objectives, in large measure must be made at the local level. So safe routes to school, the pedestrian and bicycle expenditure you're talking about, those kinds of programs are extremely important. We're supporting them as an

administration and have tried to put money into those types of programs, but I think those decisions should emanate from the local levels. It's like what Norm was talking about with regard to the whole structure of ICTEA and the regional planning organizations: the "bottoms-up" approach.

Let me just say a word about homeland security, because I think that it is a cost of doing business. We can't ignore it; we're going to have to find the resources to deal with it. In fact, our bond package, Proposition 1B on the November ballot, includes \$100 million for port security and \$1 billion for a transit security system in the state. This will be used not only to make those systems more secure in terms of avoiding the problems that occurred in London and in Spain, but also to develop our transit system as a means to serve us. It would provide things such as more responsiveness to a natural disaster or terrorist attack, where we can use our system to effectively move people out of harm's way or get people moved out of a damaged area to another location.

SECRETARY NORM MINETA

Also, because there are subscribed direct money programs, you have things like transportation enhancements, which is funding that enables local districts. Like Will says, not one size fits all, so transportation enhancements allow local jurisdictions to direct where those resources might go. One of the innovative programs that Rod Diridon did when he was here in local government was using transportation enhancement money to create a childcare center at a transit stop. You have a park-and-ride there, so people can park there, drop their kids off at the daycare center, get on the light rail, and go on to work. When we were doing TEA21, I remember hearing the argument all the time of why we had to could get rid of transportation enhancements. Do you realize that highway trust fund monies are being used for the childcare center? What enhances the use of a transit stop more than a daycare center? So we really had to fight in SAFETEA to preserve that kind of flexible funding for operators.

WILL KEMPTON:

Thank you, I just want to thank you again, Norm, for your help in accessing the educational components of the Mineta Transportation Institute graduates. This has been an incredible experience so far. I think, as Art says, the key is education, and institutions

like this unique program really add a human aspect to transportation and training for future leaders and managers.

DON STEVENS:

My name is Don Stevens, I'm President of Municipal Services Group and I'm one of those investment bankers referenced earlier. I mentioned to Norm that we have been involved in innovative financing since 1986, and perhaps that's why I have so much gray hair. Sometimes you feel like a voice in the wilderness. I thought it might be helpful to share one example of innovative financing with everybody, and perhaps that would raise some additional questions in conversation. We provide financing for SMART in Detroit, and they interline with the city of Detroit. They had a fleet of 300 line haul units that desperately needed to be replaced. They had sufficient funds to replace 15 units, from local match and Federal Transportation Administration grants. We worked with SMART and introduced private capital into that mix. They were able to replace all of the line haul units in a three-phase, three-year program. Initially, SMART, in just one of the phases, saved almost \$600,000 in fuel costs due to the newer units, which underscores why the private capital markets have to be brought to bear on this, in that financing. Their overall savings exceeded the interest cost of the financing, and ridership has risen 11 percent year over year, in contrast to the three-odd percent that was cited earlier. Dan Dirk will tell you that being able to introduce new equipment on the street attracted new ridership and helped retain existing riders.

In the Detroit area where there has been a downturn in the economy this demonstrates the extraordinary contribution that the capital markets can make. I would suggest that outside of Wall Street, which is only attracted by major financings, the need for the small- to medium-sized properties can be served from a variety of sources. There are billions of dollars available for these programs from these small-to-medium sources of financing. I put together a statement that was issued before the banking subcommittee some two years ago, and it said, "Continued long-term funding commitments are a prerequisite to securing the capital market investors' participation in providing the necessary funds now. We have to put a stop to 6300 earmarks that slow this whole process down. It's the only

way you can retain the interest, the comfort level if you will, of the capital market's investment."

MORT DOWNEY:

Predictability and transparency.

WILL KEMPTON:

Don, if you could come back up here, how did you communicate the success that you just outlined here? How did you get that word out? Does the public know about that success, do the governing boards and the state legislature know about that success?

DON STEVENS:

We have to market our service, and we market directly to the various transit properties as well as manufacturers. We've made every effort to make them aware of this success; but with the exception of some of the regional administrative offices and some of the program managers, they are not familiar with innovative financing. Most have never been exposed to it, and while ours is a very simple approach, it's not a bond issue. While we can facilitate it very quickly and avoid the market risk that the protracted bond issues often subjects these properties to, it's something that they aren't familiar with, so there has to be an educational effort.

ROD DIRIDON:

I won't take up too much time here, but I would like your card, and I would issue a challenge and an invitation to any of you in the room who feel strongly about the benefits of private investment in helping meet our transportation needs. The next time we have a proposal before our state legislature, come to Sacramento and make this case before those policy committees so we can get the authority we need to take this approach.

DON STEVENS:

I would add that if anyone would like to just simply review this statement that we put together for the senate banking committee, I would be happy to send that to anybody if they want to leave their card back here. Thank you.

GRACE GALLUCCI:

Good afternoon. I am Grace Gallucci, Director of OMB for the greater Cleveland RTA, and I have just a few comments. I'm not sure they're really questions, but in response to the previous speaker, the government has been leveraging private investment for as long as government has existed. We have been doing general obligation bonds, revenue bonds, etc. Each time something new comes along we call it innovative financing, and as a finance professional I find it very exciting. I've done Japanese leverage leases, I've done leasing for 30 years, and we've done all kinds of things that have generated revenue for my agency.

The public administrator in me, however, cautions us to be very careful. Those leasing programs have addressed our immediate needs; however, as Mr. Mineta and Mr. Downey probably remember, many of those leveraged lease programs that were encouraged by the Federal Transportation Administration, were abruptly halted. The U.S. Treasury said, "Well it's great that at the Federal Transportation Administration level you're encouraging your agencies to raise monies for themselves with those innovative financings, but the state treasury is losing money because the companies that we did business with were getting tax breaks." They were getting these tax breaks based on the fact that they were utilizing our benefits and we couldn't use because we're a tax-exempt agency. So I caution us to say we may be addressing our immediate needs, but we will be losing in the long-run. It all goes back to the difference between a public sector organization and a private sector organization. A public sector organization for public service is for the good of the people. A private sector organization exists for one reason and for one reason only, to make money. It's a profit orientation: if they are going to give us money now it will cost us tomorrow because their objective is to make money. In some cases that works well for us because we may not have the immediate money to pay off a pension fund or to do something, so leveraging private money will help us with the immediate need.

However, private funds do nothing to address the issue of how do we fund transportation in the long-run. And the answer is that there has to be increased taxes because what we're saying is that, even through this innovative financing and these leverage leases, the taxpayers are going to pay more money. These companies are making money because they're either going to decrease costs or increase revenues, which are tolls. So either way,

the customer, the taxpayer, pays more, even if it's disguised as a toll instead of a tax. I think we ought to encourage our lawmakers to be bolder and say we need increased taxes if we, as a country, want to have a better transportation system, and not put the pressure on the local agencies to scrounge around and do everything they can do to draw a little money from private investors who hope to turn a profit off of public industries and the public good.

ART GUZZETTI:

I appreciate a lot of those sentiments and say the idea for public-private partnerships should not be an either-or thing; they should be a combination, and they should be supplemental.

MORT DOWNEY

I think some of these investments can create early value. When I was in New York we had a deplorable system, we had to borrow the money to rebuild and replace 8000 subway cars. We couldn't do that quickly if we were just to raise taxes. But once those new cars were in place, the mean distance between failures went from 3000 miles to 178,000 miles, ridership was up 36 percent. I think when we talk about the private sector, they will make money, which is their intent, but if we can leverage off that, to get a public benefit as well, it can turn into a win-win situation.

DEREK MORSE:

Derek Morse with the Regional Transportation Commission in Reno, Nevada. This will sound a little contrarian, and this topic has been talked to death, but I think we need to consider a couple of facts and some historic trends that are occurring. I don't think anyone would say SAFTEA-LU was enough. It was monumental, but was it enough? If you ask any of the AASHTO folks, they'll say it wasn't. The GAO studies say that it wasn't. To maintain real dollar per capita outlays, there would probably have to be a 30 to 40 percent increase with the next reauthorization bill, and I don't think that's going to happen. We've had discussions or sessions on local initiatives; we've had two successful ones in the last 15 years. People in this room have all been involved in local funding

solutions. The trend is that the majority of funding for transportation is coming from the state and local levels.

The one element that people seem afraid to touch, is that we need to reexamine the role of the federal government in transportation funding. Now, I'm not saying there is no role for the federal government—there is a vital role for the federal government—but is it the role they have today? I think we are seeing devolution; whether we like it or not, that is what's happening today. I believe the question is not whether it is occurring but how far do we want to devolve?

When you talk about putting the private sector in the business here, they've been involved for a long time, but are now becoming even further involved—that's just another form of devolution. There's nothing wrong with that necessarily, but I think we need to have an intelligent conversation about it. It may take longer than the next six years, but I don't think that there is any realistic short-term fix that we can get out there that will pass with this Congress, or any other Congress, quite honestly, that will leave us whole and well-funded. I worry that there could be a real rocky time over the next couple of years. We need to get on with this conversation if this is where things are headed. Let's talk about our role and the appropriate role federal role that needs to be played. We need to have that discussion because I think we're just kind of drifting along and we're not dealing with some of the main issues here.

SECRETARY NORM MINETA

Well, in response to both Grace's issue and Dereck's, we can't get our legislative bodies to go for an increase in the gasoline tax. I see a growing resistance to that approach, and that's why, when you hit the blank wall, you've got to find some alternative. I think that's why anything, any alternative, should be considered innovative financing. We're going to have to continue looking for alternative approaches. I think it's New Hampshire that has the highest state gasoline tax, it's something like 36¢ a gallon, and in North Carolina it's something like 33¢. There were some states a year ago that were going to have a moratorium on the collection of the state gasoline tax when gas got up to \$3.60 a gallon, so there's already a resistance at the state and at the federal level to increasing the gasoline tax. We've got to look at alternative means of financing.

The other part of it is something that was mentioned here about GAO saying, sure, SAFTEA represents a record amount of funding being allocated on surface transportation, but it's still inadequate. That report was based on the Conditions and Performance report. This report is not only about the federal part of the formula but the state and the local as well, and so when you try to look at the total needs in terms of local, state and federal, and then say how much of that is coming from something like SAFTEA-LU, then they'll say it's inadequate. But there's all that other financing that you've indicated, and the greater part of it still comes from state and local financing. So the federal government is not going to be able to take care of the C&P report, because the C&P report is not intended to say that handling all of the transportation needs is a federal responsibility. We've got to look at other financing mechanisms.

WILL KEMPTON:

I agree with much of what you said. Most of us sitting on this panel are trying to meld the practical aspect with where we think the overall issue of finance needs to go. So I think you will see the issue evolve over time. It's not going to be immediate, and given what Norm and others have said, it may get worse before it gets better. I think there's a very strong role for the federal government in whatever the solution is. I think there are some issues that should be addressed at the national level. Trade infrastructure is absolutely at the top of the list from my perspective, and Norm described the situation when he discussed those containers coming into this country through the ports of L.A. and Long Beach. Some of them do stay in California, but the majority of them go across the country to other markets. So while those goods are in the state, it is a national issue in terms of how to get those products and imports from port to market. Border crossings are another issue. We can't have California and Arizona and Texas having different strategies and priorities of how to deal with things; it's got to be an issue that's addressed at the national level. I think the earmark process has really hurt the federal government's ability to be able to focus those federal resources on the kinds of issues that need to be addressed. We were looking at a program in SAFTEA-LU called "Projects of Regional and National Significance" from which California hoped to get about \$900 million for improvements for the Alameda corridor. The fact of the matter is, we ended up with a \$150 million, and the reason is there was so much money going into earmarks. So that's

an issue that has to be addressed, but there is a role for the federal government in transportation.

NURIA FERNANDEZ:

Once there is a lot of power at the local level, you know it. Just about three or four years ago, we saw a major groundswell of public transportation funding from a referenda that many of us didn't think was going to pass. Yet it passed successfully. Many communities turned around and told their local, state government "Look we can do this, we want this, it's not a priority to you, it is a priority to us." It was not a priority to the state, but because of the other demanding priorities of those communities, the state felt it had to take action. So there's a lot of power at the local level, but those of us who work at the local level also recognize that even within our local governments we can't agree. This is even truer as you cross the borders into other states. So there is a role for the federal government, not only in funding but also in policy making. It helps to bring together a more national perspective as it relates to transportation. Transportation is 11 percent of the gross domestic product for this country; clearly, if we want to stay at that level or improve it, we need to think about things not just locally but nationally. We need to build. Strength is found in numbers. As a community at the local level, you have to be very successful in building coalitions and getting things done and sending the right message. I don't think you will always be able to do this by yourself.

I have to interject on the comments made by the young lady from Cleveland that talked about private versus public. I was a former business person and I can say there's nothing wrong with making money, so we can't just look at private sectors as being in for the profit, but there is certainly an opportunity here to leverage those public dollars with private dollars and get a good product, or a better product, as long as it's for the benefit of the public.

ASHA WEINSTEIN:

On the issue of devolution, I think there's an important role for higher levels of government, whether it be at the federal level or the state, to raise funds and be able to fund priority projects. I also think that something that could be done, maybe at the state level, is to make it easier for local jurisdictions to raise their own revenue. I'm most

familiar with the California situation, but I'm guessing in many states it's somewhat similar. Here, there's actually a great deal of reluctance at the state legislative level to allow counties to pass additional local taxes, and I think that changing that certainly wouldn't solve all of our problems, but it would at least allow for more flexibility for localities to raise monies in ways that felt comfortable to them and their citizens, and to fund projects that were also local priorities.

MORT DOWNEY:

One concern I have in the local and federal partnership, although I agree we really need to get major efforts at the state level and local level, is that there was evidence, which GAO found, that for every \$2 of new money that came in from the federal government; at least \$1 disappeared from the state and local side.

UNKNOWN SPEAKER:

This is not so much a question but a follow-up to what you said and what this gentleman said. Part of the problem is we're going backwards. In California, in 1936, we passed a vehicle license fee that helped pay for local streets and roads. In 1943, it was 2 percent, but all of a sudden 65 years later, it became a new tax, and was eliminated. It was bringing in \$5.4 billion a year. It's going to take 30 years to make up what would have been generated in four years by the vehicle license fee. In Washington State, the same kind of fee, which helped do a lot of public transportation, was taken out by public referendum. The same thing is happening in Oregon. Somehow, we've got to convince the public that if they want more asphalt, which is essentially oil in solid form, or concrete, which is going up 11 percent a year because of world demand, they need to be willing to pay for it. I'm not sure how we can do that; I mean, I'm on the board of a bus agency, so we worry mainly about operating funds, but these major capital funds are essentially the same problem. I don't have a solution, but this constant demand to reduce taxes and increase services has got to stop somewhere.

ART GUZZETTI:

I was just going to comment on the vehicle license fee and raising the gas tax. The fact of the matter is that it was an immensely unpopular tax, and it was a key issue in the last

gubernatorial election, the California recall election. The public speaks on the issues, and that's why we see the problems facing us with respect to dealing with any kind of a tax increase. Also, in response to what Dr. Weinstein said about giving local agencies the ability to decide on raising financing for any purpose: in California, we have the ability for all counties to consider local sales taxes and also the ability to raise the gas tax locally. People don't know that, but it's in the books. The only problem associated with that is the fact that it requires a two-thirds vote, thanks to Proposition 13. Not all states have this—let's call it a limitation—but this is a limitation that the public wants placed on government. They do not want these taxes raised without a significant level of approval on the part of the general public. We have Proposition 13 here that says local agencies can have that authority, but we're going to make sure that our interests are protected since it will require two-thirds of the public supporting it.

WILL KEMPTON:

Let's talk about the pricing thing that the administration has put on the table. It comes from the transit sector. People put money in the fare box when they ride transit, but they do perceive the cost of driving to be nothing. When you price the road trip, that will lend an advantage to the transit trip in and of itself. People will start to put in their mind that this comparative choice I have to make, this road trip, isn't so free after all, so I think there is a benefit that might come from that.

MORT DOWNEY:

In the search for the popular tax I will say that when we were trying to finance New York, we finally got a five-tax package through the legislature, each of them by one vote. The real leader, what the legislators really wanted to do, was a tax on foreigners living abroad. But we couldn't figure out how to collect that. However, aside from that tax, they're never popular. As Will said this morning, and I think the point that Art was making, was that people have to know what they're getting for the money or what they won't be getting if the money is not there. Then we can have the conversation, and if it's still isn't popular the best we can say, is, "We told you so."

KENNETH RYAN

I'm Kenneth Ryan, and I've been listening to this, fascinated in a lot of ways; however, I feel that we are oversimplifying the whole issue. Fundamentally, what we've been talking about, especially from the federal level, is mainline funding, i.e., the long haul. I don't think the public at this point has any great concern about the long haul. Also our people become absolutely unglued, because as soon as you talk about the long haul and get a federal bill passed, the next thing that's going is the highway from Mexico to Canada, which our folks see as an absolute waste of money. So we're building up, in my view, a major resistance in the public because I don't believe the public sees that we are dealing with their issues, and I think these local earmarks are a perfect example of that. The local earmarks are there because the public, be they political or whatever, have told their legislators that we have to have this paid for now, and you better make sure it gets funded. I think it's time for us to get together and start talking about what the next federal law is going to be, which is, what, in another five years? It's time for us to hash this out among ourselves now, because the net result is we've got to figure out how to persuade people that the funding that's going into their transportation is to their benefit. I don't think we've done a good job on that.

I was very involved with Metropolitan Transportation Commission, setting up the Transportation for Liberal Communities. It turned out to be one of the smallest dollar programs the Metropolitan Transportation Commission has put together collectively, and yet one of the most popular. Somehow we have to make that connection, that what we fund has a benefit to the people it's going to serve.

This goes back to the old question of community design, and it also goes back into Norm Mineta's concept of the last mile. We can talk about everything we want to talk about getting it cross-country, but what's going to happen when it gets there? We've never effectively thought out or dealt with that question of the massive change in how freight is handled. In the San Francisco Bay Area we have one yard left, in South Hayward and Union City. There is still a track service to every local business, but only about 10 percent of them use it. We've torn it out in San Jose, and we've torn it out in South San Francisco, and we've torn it out all over the country, so if we want to deal with this question of the movement of trucks and freight locally, we need to rethink how freight

comes into and goes out of the area. Sure it can come out of the port but it's not the issue of how it's getting to the ultimate seller.

Warehousing is gone, talk to anyone in the warehouse industry and they'll say it's a dead issue because of the way that the transportation system has changed. We have Sierra Club folks who have jumped on this whole concept of smart growth. We think that our communities need to be grown in a more intelligent way so that people can walk and bicycle and ultimately use less transportation for their day-to-day lives. It's happening in Europe and it's happening in Canada. We need to somehow get a hold of this, and I believe that we need to spend the next five years in meetings like this, hammering out the changes in the way federal money comes down the pike for the future.

WILL KEMPTON:

I will agree with you on most of the points you have made. I just wanted to comment on two points. One concerns the issue I raised in my opening comments, that we are not doing a good job in selling what we do. We need to discuss the benefits of the programs that we administer.

You talked about smart growth, about the need for any financing that comes either from the federal government, or from state and local governments to be performance-based. We need our financing to be outcome-oriented, with targeted investments that give more than lip service to the tie between land use and transportation. There is absolutely no question that there is a nexus there that needs to be observed. We can do a lot to our land use decisions to reduce the demand on our transportation systems, and we have an effort underway that we call blueprint planning. We are giving grants to local agencies as part of the transportation program because this is an important benefit to transportation. We need to get those local agencies to do studies that will look at the various land use scenarios that they might undertake and the relative impact of those scenarios on the transportation network.

SACOG [Sacramento Area Council of Governments], the MPO in the Central Sacramento area, did a study that was terrific. It contained four different scenarios that were business as usual, as well as some relatively different scenarios focusing on development around corridors. The impact on transportation was found to be dramatic,

and so we want to encourage the local agencies in our state to target our investments to encourage streamlining and increasing efficiency.

SECRETARY NORM MINETA

One of the things, Ken, that you mentioned is the whole issue of whether transportation meets our needs. Part of the problem, I think, is in the past we drew lines for where highways or transit lines could go based on where the most inexpensive property was from point A to point B. We had a highway system that came across my hometown; it went through the poorest parts of town, and it displaced about 1700 families, about 10,500 people. At that time, the average rent was something like \$55 a month, whereas in the community, the rents were \$150, \$175 a month. So we got the city council to set up a housing authority to take care of the people being displaced by the construction of the highway. Not only highways but transit gets laid out in that way. But how can we have the most cost-effective methods to acquire the land to build our systems?

The other part of it that you mentioned—about warehousing being gone is because of JIT delivery: the transportation system is now being used as the warehousing so that it goes from point A to point B, and there's no way to utilize that terminal or warehousing to redistribute the goods. What we have to try to do is to reassess our own planning process in order to reach the marketplace. That old expression about how we "grow old too soon and smart too late" is an apt description. Local agencies are now trying to become much more receptive to those signals that are being sent in the planning process and the marketplace as to what has to be done.

MORT DOWNEY:

One group that I'm associated with, the Coalition for Gateways and Trade Corridors, has proposed that there be a freight trust fund. So when you look at projects like Alameda or you look at the airport access for cargo, you look at the movement. Time means money. We're floating the idea that freight should pay some part of bearing the cost, in addition to that paid by the carrier.

SECRETARY NORM MINETA

In the 1890s they talked about the robber barons; I'm not sure things have changed.

LES WHITE:

Les White from Santa Cruz. In listening to the discussion today I think that there's been some excellent points raised, but I wanted to reinforce what Dave Turney had said this morning with regard to the impact on transportation of living on continuing resolutions. People have been referring to dialogue that needs to take place over the next couple of years, and that's probably true. But in February of next year, President Bush will propose the next-to-last budget eligible under SAFTEA-LU. We're already two-thirds of the way through it, and the end will come in February of 2008. What I would ask the panel, for all of us representing or participating in various associations whether it's APTA or AASHTO, is how can we kick-start the discussion that's happening today with the Mineta Institute? How we can kick-start that within the associations and then cross-pollinate it so that we get a running start on moving this forward?

MORT DOWNEY:

Exactly the point of what we're trying to start today, and I hope we will be able to move forward with it.

ART GUZZETTI:

I'll offer maybe one quick thought and turn it over to Director Kempton. The last bill was two years late. The trust fund kept flowing and money kept flowing; although money was a little bit flat, it really didn't go down. This time we won't have that luxury, in fact this bill will not be late because the trust fund will be broke before this bill is finished. So we have to use this looming crisis to galvanize APTA and AASHTO.

WILL KEMPTON

I was going to say, Les, I think that the SAFTEA-LU commission provides a framework for us to have this debate. Mort was saying he's already been to Dallas, and everybody on the panel is going to have an opportunity to be able to address that commission, but it will move at its own pace. We don't have the say in how that goes; the commission has already requested.

I would like to see of all the interests, and not just the transportation lobby. That the national chamber is moving in on this issue is instructive to me. The importance of

transportation to our economy and to our quality of life is undeniable, and so I would like to see earlier a larger coalition of groups that have an interest. We need an organized coalition that will start delivering this message, not just to get a renewed reauthorizing bill but also to change the direction that we're going in and to highlight the importance of transportation.

Case in point: in California, we have the largest delegation to the Congress, and yet I think even Norm would agree we were effective simply because we had leaders like Norm Mineta in the Congress, not because of numbers. We've not done a good job in California of getting together and uniting on particular issues. This past year, with the passage of SAFTEA-LU, we did. The state stepped in, organized a coalition of interests. There were some things we couldn't agree on, but we just set those aside. So for BART, you go argue for an issue, LAMTA, you go argue for a different issue if we can't agree, but on those points where we can all agree, let's go to Washington DC together.

KEN SISLAK:

Ken Sislak from Cleveland, Ohio. One of the issues I would like to raise is understanding the national significance of the transportation system and the role it plays, not only in our economy but also in the world economy. What we've done, and I agree with Art on this, is we've flattened out the world. We have a transportation system that allows us to get cheaply made goods and services from other parts of the world to our stores cheaply and effectively. I ride the waterfront line, which was built by local money in Cleveland; not one federal dollar went into the waterfront line, but as I ride through the waterfront line, I see the benefit that we've received as taxpayers of the U.S. There are foreign ships coming to Cleveland, dumping off steel. Our transportation system has allowed us to export our jobs by making the transportation of those goods and services cheap. In watching the developing world improve their own economies and achieve a middle class, we know that their middle class is going to be demanding higher wages and benefits and increasing their own production to satisfy their own local demand. Should we continue investing in a transportation system that gives them a benefit in competitive advantage by allowing them to export still more cheaply to our country when in fact our economy is going to be equalizing over a period of time?

The aviation industry in the last six years has lost \$42 billion, and that does not include the \$20 billion that was provided by Congress after 9/11 for the extraordinary circumstances when nobody was riding airplanes because the system was grounded. From the time that the aviation industry started, if you look at their total profit-and-loss picture, it's less than zero, which means it's a negative number, and yet we continue investing in the aviation industry. My question to Nuria is, "Why would I want to continue investing in airports and building system capacity when I can have fast trains?" If we're going to look at one funding stream, how about if I take some money from the airports/aviation industry and give it to fast trains?

NURIA FERNANDEZ:

I wish I had that power to do that, but in reality I do not. Let me just go back and address your statement regarding the aviation industry and the decline in profits to the airlines. When you look at the numbers today, I don't know if you're tracking those numbers but I certainly do, what we're seeing is the resurgence. Airlines that were in bankruptcy are emerging from bankruptcy. We only have a couple of them left in bankruptcy. Most are beginning to realize a profit and that profit has started inching up. It started to see an uptick over the past year, but the reality is, because of all the loans they have taken out in the past, all of that profit is going to pay off those loans. So we're not benefiting from that profit; the fares are not going down, the fares are only being impacted by competition. We have an emergence of low-fare carriers that have started to break into the market, and if you keep track of those, they're doing very well and they're addressing the domestic travel needs. That is very significant when you start to measure the increase in air travel. You look at what's happened domestically versus internationally, and domestically we're doing very well, but we're doing very well thanks to the low-cost carriers. The large carriers are trying to just keep pace with the low-cost carriers, but they're focusing on international travel where they can make more money. If we don't address that, while that does not mean that people are no longer going to fly, it does mean that they no longer are going to be able fly to places where the airlines are not going. I don't think that people are going to transfer modes of transportation. They're not going to say, "Well, we're not going to fly anymore; we're going to decide to go on the train." So

we have to be very careful about how we look at the economics of what's happening on a national perspective, on a global perspective and then how it affects us locally.

Just going back to your first statement about what has happened to this country in terms of trade, in terms of loss of jobs, in terms of manufacturing, this did not happen overnight. It's been going on for years, and those of us who have kept track of it have noticed that it's been many decades since we started seeing those declines. This is a globalization, we are in a global environment where in order to remain competitive we have to keep our borders open and we have to accept what's coming in as well as our ability to export. I'm not an expert in trade, but if we start building walls and say, okay, no one else can bring anything in here because we need to start to rebuild what we lost, I think it would be shortsighted to do that. I think that we have to deal with the reality and figure out how use our manpower and our workforce's expertise. How do we retrain industry? There have been efforts to retrain the work force, to start focusing on things that are technology-driven rather than manually driven, so there are different things that we can do. We wish that we were the powerhouse that we were back 30, 40 years ago, but that's no longer a reality, and I don't think we can recapture that. It's something that has eroded over time, it did not happen overnight.

MORT DOWNEY:

Okay, I don't see anyone else. Let me thank our panelists, and I want to thank all of you for your spirited participation. We need to build momentum on the issue of finance against those deadlines that Art talked about. We are headed off the edge of a cliff; we're on solid ground now but we need to do something before we get there. Thank you all for your role in making this happen.

ROD DIRIDON:

Mort, it would be inappropriate for us to leave without thanking you. You've come to us from Washington, and you spent a whole day with us, and you've shared a remarkable sensitivity and knowledge and organizational skills. We sincerely appreciate it. Let me call your attention to the yellow form that Leslie and Jim passed out; we want to improve each time we do one of these, so please fill it out, and you can just leave it on the table. Be direct, especially in the narrative portion. Let us know how we can improve because

we want to do better each time. We will do a summary proceedings. Make sure that your email is available, and I will let you know when the proceedings come out. We publish them electronically, so what we'll do is send you a link to our electronic publication, and you'll be able to gain access to it in that way. We don't like to cut down the forest, so we try to stick to the Internet. I think that concludes our time.

Remember that we will have another summit, another of the sequence of Norman Y. Mineta National Transportation Policy Summits, on March 10, 2007, preceding the next APTA conference in Washington DC. That session will be concentrating on security, and we will be revealing the latest in Brian Michael Jenkins National Transportation Security Center's studies on best practices around the world. We will be looking at London, Madrid, and a couple of other less-publicized, serious attacks. We'll be concentrating on the latest technology and screening procedures, so thank you for being here and remember to save March 10, 2007. We all look forward to another Transportation Finance Summit before we fall off the end of the cliff that we've been talking about. We'll have another summit before that time, and hopefully come up with some additional ideas. I wish you a safe trip home. Drive carefully, but better yet, take transit.

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